DEFINITION OF BUSINESS

Human beings are continuously engaged in some activity or other in order to satisfy their unlimited wants. Every day we come across the word 'business' or 'businessman' directly or indirectly. Business has become essential part of modern world. Business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants.

An organization or enterprising entity engaged in commercial, industrial or professional activities. A business can be a for-profit entity, such as a publicly-traded corporation, or a non-profit organization engaged in business activities, such as an agricultural cooperative.

Business can also be known as any commercial, industrial or professional activity undertaken by an individual or a group. Businesses include everything from a small owner-operated company such as a family restaurant, to a multinational conglomerate such as Tata Group, Itc Ltd etc.

To "do business" with another company, a business must engage in some kind of transaction or exchange of value with that company. In this sense, the word "business" can be used to refer to a specific industry or activity, such as the "real estate business" or the "advertising business".

Stephenson defines business as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."

According to ***Dicksee,*** "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."

Lewis Henry defines business as, "Human activity directed towards producing or acquiring wealth through buying and selling of goods."

STRATEGIC MANAGEMENT

Importance of Strategic Management/ Business Policy/ Corporate Strategy

- Strategic management is the name given to an integrative course in management. Thus, it seeks to integrate knowledge and experience gained in various functional areas of management (Marketing, Finance, Human resource management, production, research and development). Such an integrative approach is helpful in viewing the organizational problems in totality.

- Strategic management helps in understanding business as a system consisting of a number of sub-systems. Any action in one sub-system has an impact on other sub-system and on the system as a whole. It is of vital importance for the top management, in any organization to adopt such a system approach to decision making.

- Strategic management helps an executive to be a generalist- avoid the narrow perspective generally adopted by specialists and to assess the situation from all possible angles. An important attitude is to go beyond and think when faced with a problematic situation.

- Developing a creative and innovative attitude is the hallmark of an executive, who refuses to be bound, be precedents and stereotyped decisions by increasing complexity and accelerating changes in the environment. This has made planned policy paradigm irrelevant and the paradigm of strategy management relevant.

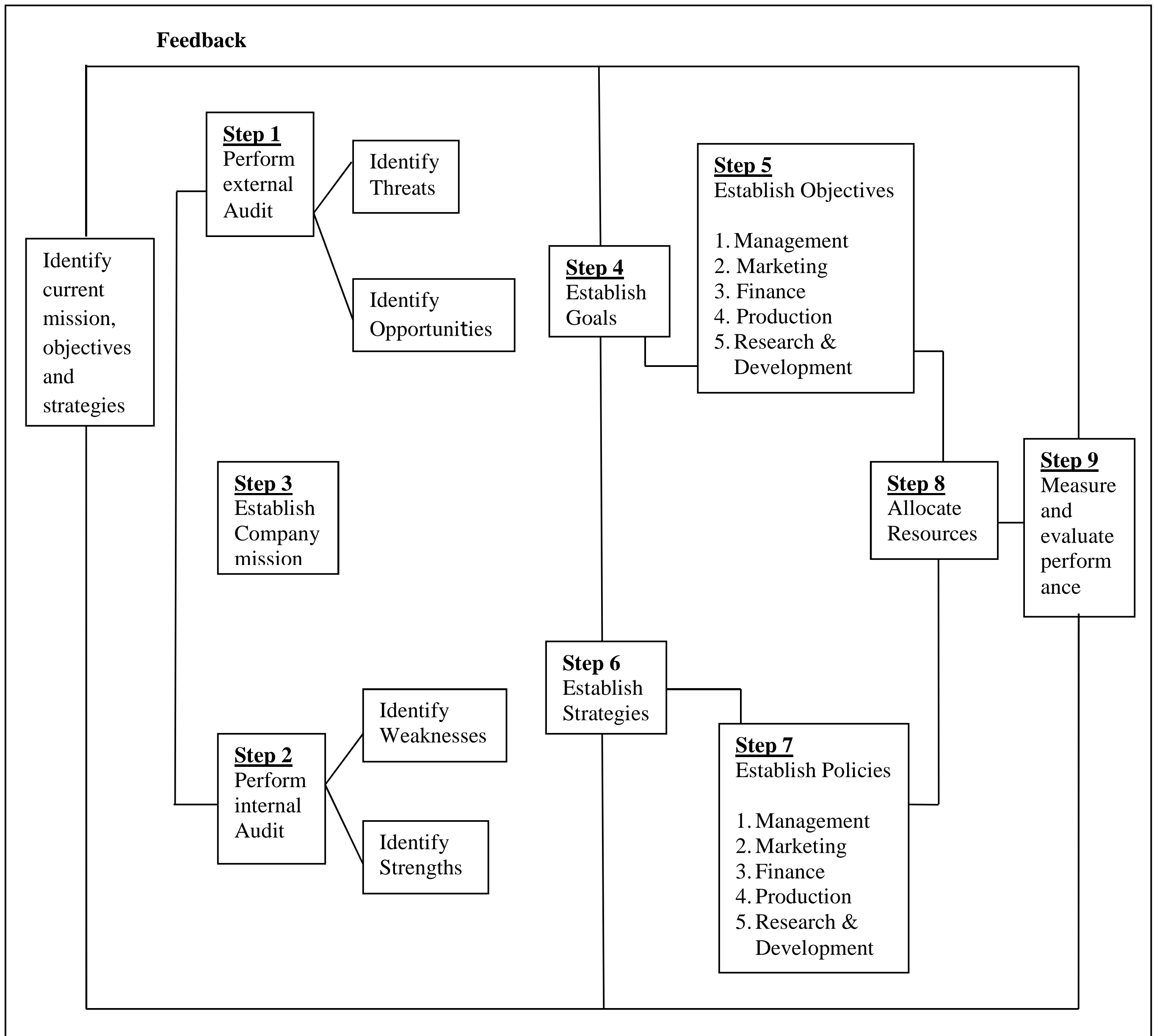
Definition:

Strategy management can be defined as the art and science of formulating, implementing and evaluation cross functional decisions that enable an organization to achieve the objectives.

As the definition implies strategy management focuses on integrating personnel, marketing, finance, production, research and development and information system aspects of a business to achieve organizational success.

The strategy management can be best studied and applied by using a strategic management model.

Cycle of Strategic Management/ The Strategy Management Model



TERMS	DEFINITIONS	CORPORATE EXAMPLES	PERSONAL EXAMPLES
1. Vision/ strategic intent	Desired future state, the aspiration of the organization	To ensure that British Airways is the customer's first choice through the delivery of an unbeatable travel experience	To run the Mumbai Marathon
2. Mission	Overriding purpose in line with values for expectations of stakeholders	To be the best and most successful company in the airline business	Be fit & healthy
3. Goal	General statement of Aim & Purpose	To provide overall superior service and good value for money in every market segment we compete	Lose weight and strengthen muscles
4. Objective	Quantification (if possible) or more precise statement of the goal	Outperform the standard industry benchmark by at least 10 %	Lose 5 kgs by December and run the Marathon in January 2013
5. Strategies	Long-term direction	To maintain our position in the forefront of the globalization of the airline industry	Associate with a collaborative network (e.g. join a running club), exercise regularly, stick to an appropriate diet
6. Core Competencies	Resource, process of skills which provide competitive advantage	Anyone can fly airplanes, but few organizations can excel in serving people. Because it is a competence that is hard to build, it is also hard for competitors to copy or match	Proximity to a fitness centre, supportive family, friends and past experience of a successful diet
7. Strategic architecture	Combination of resources, process and competencies to put a strategy into effect	Franchising is proving to be a successful way of expanding the British airways network, benefiting from British Airways' infrastructure support and the franchisees' low operating costs, at minimal financial risk to British Airways	Specific exercise and diet regime, appropriate training facilities, etc

Vision and mission

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Generally, strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In many organizations, this is viewed as a process for determining where an organization is going over the next year or—more typically—3 to 5 years (long term), although some extend their vision to 20 years.

Key components

- Vision: outlines what the organization wants to be, or how it wants the world in which it operates to be (an "idealized" view of the world). It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. For example, a charity working with the poor might have a vision statement which reads "A World without Poverty."

- Mission: A mission statement can be defined as the “Unique character and purpose of the organization, which identifies the scope of its activities and which distinguishes it from others of its type”. For example, the charity above might have a mission statement as "providing jobs for the homeless and unemployed".

Organizations sometimes summarize goals and objectives into a mission statement and/or a vision statement. Others begin with a vision and mission and use them to formulate goals and objectives.

Many people mistake the vision statement for the mission statement, and sometimes one is simply used as a longer term version of the other. However they are meant to be quite different, with the *vision being a descriptive picture of future state*, and the *mission being an action statement for bringing about what is envisioned* (i.e. the vision is what will be achieved if the company is successful in achieving its mission).

The scope of mission statement and its importance

The mission statement should define the major competitive scope, within which the company will operate.

1. **Industry scope**:

   In the mission statement a business should mention the range of industries that the company will consider. Some companies will operate in only one industry, some in only a set of related industries, some in only hotels, some in airlines and some in any other industry.

2. **Products and application scope**:

   In the mission statement a business should mention the range of products and applications in which the company will participate. By defining products or services the company distinguishes its offered products or services from competitive products or services of similar nature provided by other competitors in the market.

3. **Competencies scope**:

   In the mission statement a business should mention the competencies that the company holds. By defining the range of technological and other competencies, the company mentions about its current technology which is used in making its products. It also tells about the unique ways in which its products or services are technologically more advanced than their alternates.

4. **Market-segment scope**:

   In the mission statement a business should mention the competencies that the company holds. By defining markets, the company is declaring which types of customers it will target. Or who will be the intended audience for which it will produce products or services. For example, a luxury car maker like Rolls Royce has a potential market of only the richest of the rich in the world.

5. **Vertical scope**:

   In the mission statement a business should mention the number of channel levels from raw materials to final product and its distribution, in which the company will engage. For example: A huge travel corporation that vertically integrates with an airline, a hotel chain and a chain of travel agents.

6. **Geographical scope**:

   In the mission statement a business should mention the range of regions, countries or country groups where the company wants to/ will operate.

7. **Employee scope**:

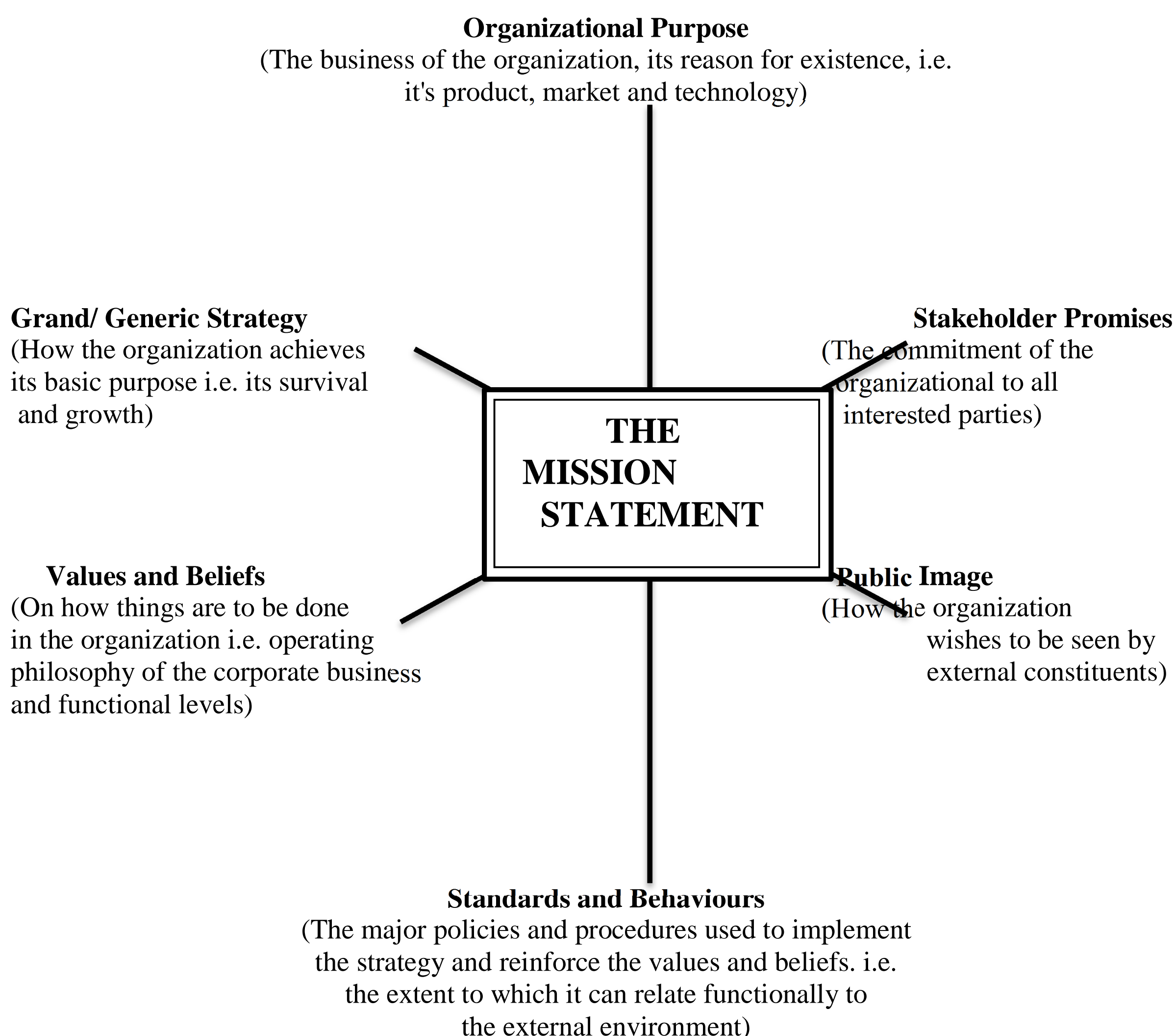
   In a mission statement a company also defines the ways in which it is beneficial for potential and currently working employees to work at a certain organization. This also includes the ways in which the company will treat its employees and how will it look towards this relation in a longer period of time.

The components of a Mission statement

A Mission statement can contain any one or more of the following components and a good mission statement will contain all of them.

- A statement of Organizational purpose
- A description of generic strategy, i.e., the way in which the organization attempts to achieve its purpose.
- Stakeholder promises
- A statement of organizational values and beliefs
- A statement of public image
- A summary of standards and behaviour's expected within the organization.

The following figure explains these components:



Evaluating a mission statement

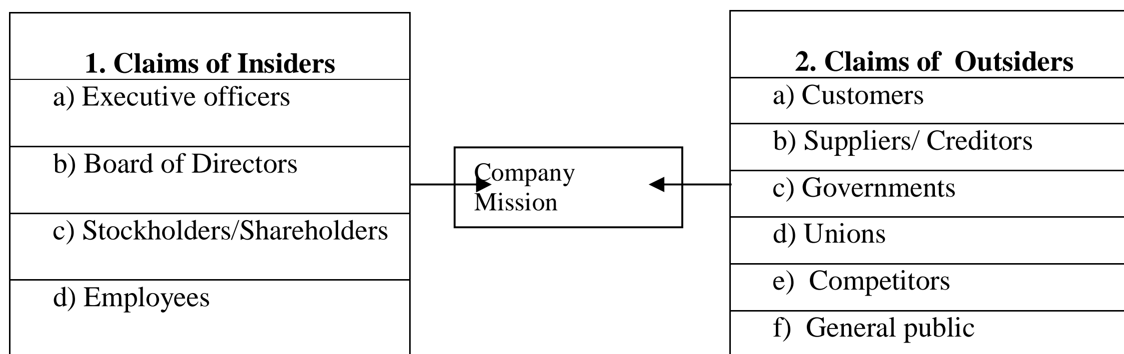
Given the importance of a sense of mission in achieving the objectives of any organization, a need exists for management to be able to assess the quality of a mission statement. The objective criteria mentioned in the previous chapter, can be used to judge the quality of the mission statement. A framework to assist in this regard is shown below:

Answer each question	0	1	2
	No	**Some Degree**	**Yes**
1. ***Organizational Purpose***			
A) Does the statement describe a clear purpose that avoids playing to the selfish interests of one of the stakeholders?			
B) Is the purpose expressed in terms of customer needs, customer groups and technology (If appropriate)?			
2. ***Generic Strategy***			
A) Does the statement define a clear strategy which will achieve the organizations purpose?			
B) Does the statement describe the strategy in a way that helps to identify the sort of competitive advantage it will look for?			
3. ***Values and Beliefs***			
A) Does the statement identify values that link with the organization's strategy and purpose?			
B) Are the values and beliefs things with which employees will be able to associate?			
4. ***Standards and Behaviour***			
A) Does the statement describe important behaviour and standards that serve as beacons of the strategy and the values?			
B) Are the behaviour standards described in a way that enables individual employees to judge whether they have behaved correctly or not?			
5. ***Public Image***			
A) Does the statement describe the way in which the organization wishes to be perceived by the external publics?			
B) Does the statement of public image match the internal values, beliefs and purpose of the organization?			
6. ***Stakeholders***			
A) Does the statement describe the organization's commitments to its major stakeholders?			
B) Are stakeholder commitments described in such a way that individual employees can judge whether they have behaved correctly or not?			
7. ***General***			
A) Does the statement capture the culture of the organization			
B) Is the statement easy to read?			

Scoring: 25-28 Excellent
15-24 Good
0-14 Poor

The Claimant/Stakeholders Approach to corporate responsibility

The various claimants/ stakeholders in a company can be divided into two categories which are mentioned below:



Each of these interested groups has justifiable reasons to expect and often to demand, the company to act in a responsible manner in satisfying their claims.

- Stockholders claim appropriate returns on their investment
- Employees seek broadly defined job satisfaction
- Customers want what they pay for.
- Suppliers seek dependable buyers
- Governments want adherence to legislation
- Unions seek benefits for members in proportion to contributions to company success.
- Competitors want fair competition
- Local communities want companies to be responsible citizens
- General public seeks some improvement in the quality of the life resulting from the firm's existence.

The following four steps need to be taken in order to implement CSR principles in a corporate:

1. **Identification of Claimants/Stakeholders:** While defining a mission statement, strategic managers must identify all claimant groups and weigh their relative ability to affect the firm's success
2. **Understanding of specific claims Vis-à-vis the company:** Specific claims of each claimant should be known and understood by the strategic manager, which will help him to both appreciate their concerns and initiate clearly defined actions.
3. **Reconciliation of claims and assigning them priorities:** The concerns of various claimants often conflict. For example, the claims of the governments and the general public tend to limit profitability, which is the central concern of most creditors and stockholders. Hence, claims must be reconciled and prioritized.
4. **Co-ordination of claims with other elements of the mission:** Demands of claimant groups for responsible action by a company constitute only one set of inputs to the mission. Managerial operating philosophies and determination of the product-market offering are the other principal components, which are considered.

***CSR**: According to CSR principal, the corporate should act as a "Corporate citizen" and they should take into account the interest of all the parties and stakeholders who are directly or indirectly associated with the business.

Plan-A-Plan / How do we develop a plan?

PLAN	=	BUDGET + TEXT
TEXT	=	GOALS + OBJECTIVES +SAMPLE ACTION PLAN

Goals Vs Objectives

Goals	Objectives
Definition 1: Goals are Open ended attributes or statements that denote the future state or outcome.	**Definition 1:** Objectives are close ended attributes or statements that denote the future state or outcome.
Definition 2: Goals are general / abstract statements.	**Definition 2:** Objectives are specific / concrete statements.
Examples of goals for various functions of a business:	**Examples of objectives for various functions of a business:**
Marketing	
Eg:	**Eg:**
Human Resource	
Eg:	**Eg:**
Operation/ Production	
Eg:	**Eg:**
Finance	
Eg:	**Eg:**
Research and Development	
Eg:	**Eg:**

Levels of objectives / Hierarchy of objectives

Objectives have a hierarchy. They can be set at different levels of organization. They can be at following levels:

1. **Corporate level objectives**:

It requires top management to establish and define the broad reasons for being in business. Questions such as "What business we are in?", "Why do we operate as we do?", and "Who are our customers?", lead to the corporate level objectives. They are stated broadly.

Corporate level objectives deal with the following aspects for each company:

- Vision,
- Mission
- Strategy.

2. **Business units / Hotel level objective**:

They are set for each strategic business unit (SBU). They define the business of the organization. They are set for key result areas, such as profit, market share, sales. The annual reports of public hotel, motel and restaurant chains speak of their organizational objectives. It is these broadly stated objectives that make up a property's mission statement and become the guidelines for all within the organization. They follow from corporate level organization.

Business level objectives deal with the following aspects for each SBU:

- Long-term profitability
- Market share growth
- Product category scope : product line and items
- New business opportunity, etc.

3. **Function level / department level objective**:

They set specific objectives for each function of SBU. The function can be operation, marketing, human resources, operation/ production, finance, research and development.

They follow from Business level objectives. Function level objectives deal with the following aspects for each function/ department:

- Lowering cost of production
- Level of customer satisfaction
- Programmes for human resources development
- New products to be launched
- Advertising and sales promotion targets, etc.

4. **Individual level / employee level objective**:

They are related to daily or weekly performance of each employee. They follow from the function level / department level objective. They deal with:

- Level of output per employee
- Reject and waste
- Sales per salesperson
- Career planning and development, etc.

Sample hierarchy of objectives for a medium-sized hotel

LEVEL 1 **Corporate level objectives**
1. To place emphasis on delivering all services with superior performance and efficiency to strengthen our image of excellence. 2. To increase sales volume by 8% this year while maintaining a 16 % net after taxes.
LEVEL 2 **Business units / Hotel level objective**
1. To increase room sales volume by 20% this year (600 room nights). 2. To increase banquet food sales by 9%. 3. To attain an average labor cost of 22% for the hotel.
LEVEL 3 **Function level / department level objective**
1. To develop a corporate rate program. 2. To develop a sales program for informing guests of varying room rates and the advantages of higher-priced rooms.
LEVEL 4 **Individual level / employee level objective**
1. To develop a Presentation for guests recommending higher-priced rooms 2. To personally visit each type of guestroom in order to know and describe the hotels guestroom properly.

Categories of Objectives/ Types of objectives

Generally managers would suggest profit as the primary objective of hotels and restaurants. This is oversimplification. Measuring success on the basis of any single objective, (In this case, profit- can cause problems). A manager can generate high profits but neglect long-term considerations that affect the future of the property, such as maintenance, innovation and development. Rather than a single objective, many objectives are needed in a number of performance areas.

In practice, it is helpful to categorize objectives in order to better coordinate and create innovative results. A property needs to develop objectives in all the functions, to avoid conflicts and confusion amongst all the functions/ departments.

Examples of objectives:

1. **Marketing**:
   To increase the number of _______room nights by_____% in the next _______months.

2. **Human resource**:
   To complete job descriptions for all operating departments by __/__/____.

3. **Operation/ Production**:
   To improve the quality of service in the banquet department this year, as witnessed by a _____% reduction in customer complaint.

4. **Finance**:
   To increase gross food sales by ____% this quarter with prime costs (Labour and food) to remain the same.

5. **Research and Development**:
   To complete a study of the causes of staff turnover, with recommendations to reduce it, by __/__/____.

SAMPLE ACTION PLAN (SAP)

Objectives are virtually useless if not followed by action plans. Objective statements concentrate on What and when. Action plans concentrate on how and who. More specifically, objectives state “What you want to accomplish” and an Action Plan states “How and who will accomplish it. Thus an Action Plan consists of a step by step procedure (Specific programmes and activities) for accomplishing an objective. Target dates and assigned responsibility are specified for each phase of an Action Plan.

Target Market: Training Meetings

Goals and Objectives: Build up July and August business by concentrating on securing training meetings business.

ACTION STEPS	Responsibility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Place ½ page ads in “Training & Development Journal”	Director of Advertising	✓			✓		✓		✓		✓		✓
Take out membership	Director of Marketing	✓											

BUDGETS

It is generally prepared annually. The budget expresses the objectives of an organization in rupee value. A budget committee made up of head’s of each department meet to forecast the year’s business and to allocate the property’s resources. In other words, a Sample Action Plan (SAP) expressed in rupees is called a Budget.

ACTION STEPS	Responsibility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Department / Sales/ Adv. support	Amount
Place ½ page ads in “Training & Development Journal”	Director of Advertising	✓			✓		✓		✓		✓		✓	Develop & place ads with an adv. agency	19000.00
Take out membership	Director of Marketing	✓												N/A	1150.00

Environmental Scanning - Analysis of the Environment

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine and monitor the relevant factors that will influence or hinder organizational success. Various methods and techniques are employed by the organizations to monitor their relevant environment and to gather data to derive information about the opportunities and threats that affect their business. It helps the managers to decide the future path of the organization.
Definition: The process, by which organizations monitor their relevant environment to identify opportunities and threats affecting their business, is known as environmental scanning.

Components of Environment:

The classification of relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating and relating the environmental changes to its strategic management process.
There are a number of common approaches how the external factors which describe the macro environment, can be identified and examined. One approach is *"PESTR analysis"*. PESTR stands for political, economic, social, technological and regulatory. These factors indirectly affect the organization but cannot be controlled by it.

Following are the components with their detailed explanation:

A. Political environment:

The political environment consists of factors related to management of "Public affairs" and their impact of the business of an organization. Some of the important factors and influences operating in the political environment are as follows:

1. The political system and its features like nature of the political system, ideological forces, political parties and centers of power.
2. The political structure, its goals and stability.
3. A political process like operation of the party system, elections, funding of elections and legislation with respect to economic and industrial promotion and regulation.
4. Political philosophy, government's role in business, its policies and interventions in economic and business development.

B. Economic environment:

The economic environment consists of those factors which may affect the business of any organization. Some of the questions answered while scanning the economic environment are as follows:

1. Whether companies can realize economies of scale in Purchasing, Manufacturing, Transportation, Marketing or Advertising.
2. Whether certain industry activities are characterized by strong learning and experience effects such that unit costs decline as cumulative output grows.
3. Capital requirements, ease of entry and exit.
4. Whether the interest rates and taxation (specific to the industry) are favourable / unfavourable.
5. Whether the growth rate of the economy are favourable / unfavourable to the industry growth rate.
6. Whether the prices of core products/ services required for the firms are produced by the firms are relatively stable over time.
7. Whether industry profitability is above/ below par.

C. Social/ Cultural Environment:

Social factors include the demographic and cultural aspects of the external environment. These factors affect customer needs and the size of potential markets. Some social factors include:

1. The rate of change of customer preferences in adopting new products.
2. The pace of change in the consumption patterns and volume.
3. The nature of decision-making in the purchase decision (Low involvement or high involvement).
4. Shifts in customer preferences that affect a particular industry's products and services. E.g: (Health consciousness, environmental concerns, animal rights etc.)

D. Technological Environment:

The technological environment consists of those factors related to knowledge applied and the materials and machines used in the production of goods and services that have an impact on the business of an organization. Some of the important factors and influences operating in a technological environment are as follows:

1. Sources of technology like company sources, external sources, foreign sources, cost of technology acquisition, collaboration in and transfer of technology.
2. Technological development, stages of development, change and rate of change of technology and research and development.
3. Impact of technology on human beings, the man-machine system and the environmental effects of technology.
4. Communication and infrastructural technology.

E. Regulatory Environment:

The regulatory environment deals with the regulations set by the regulators, like SEBI, RBI, IRDI, PFRDA and other industry associations like, CII, FICCI etc. The regulation includes Acts, Laws, guidelines and clarifications, press releases etc. given by the above mentioned bodies.
Some important questions which are asked while scanning the regulatory environment are as follows:

1. Whether the Industry is regulated- Are there restrictions on:
   - (i) The number and type of competitors;
   - (ii) Numbers and types of products/ services that could be offered; or
   - (iii) The kind of ownership structures (foreign direct investments, foreign institutional investments, joint ventures, strategic alliances, public limited companies, private partnerships etc)
2. Whether there is an industry regulator for the Indian financial sector. For e.g. (SEBI)
3. Whether there are any industry associations that have a significant influence over the government on policy issues. For e.g. (CII)
4. Whether the government is actively involved in the industry in terms of ownership and/ or control of key firms in the industry.
5. Whether the industry is considered to be of a strategic nature for national security (like defense), regional development (like roads), or public importance (like education)?

Techniques of Environmental Analysis

I. SWOT Analysis

SWOT is an acronym used to describe the internal Strengths and Weaknesses of a business and environmental Opportunities and Threats facing that business.

A SWOT analysis should not only result in the identification of a corporation's core competencies, but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources. It is based on the logic that an effective strategy maximizes the business' strengths and opportunities, but at the same time minimizes its weaknesses and threats. The SWOT analysis framework has gained widespread acceptance because it is both simple and powerful for strategy development. However, like any planning tool, SWOT is only as good as the information it contains. Thorough market research and accurate information systems are essential for the SWOT analysis to identify key issues in the environment

Internal	STRENGTHS	WEAKNESSES
External	OPPORTUNITIES	THREATS

Strengths: Strengths are internal capabilities, resources, skill or other advantages relative to the competitors that may help the company to serve its customers and achieve its objectives.

Weaknesses: Weaknesses include internal limitations or deficiencies in resources, skills and capabilities that interfere with the company's effective performance. Facilities, financial resources, management capabilities, marketing skills and brand image could be sources of weaknesses.

Understanding the key strengths and weaknesses of an organization is essential in narrowing the choice of alternatives and selecting a strategy. Distinct competence and critical weakness are identified in relation to key determinants of successes for different market segments and this provides a useful framework for making the best strategic choice.

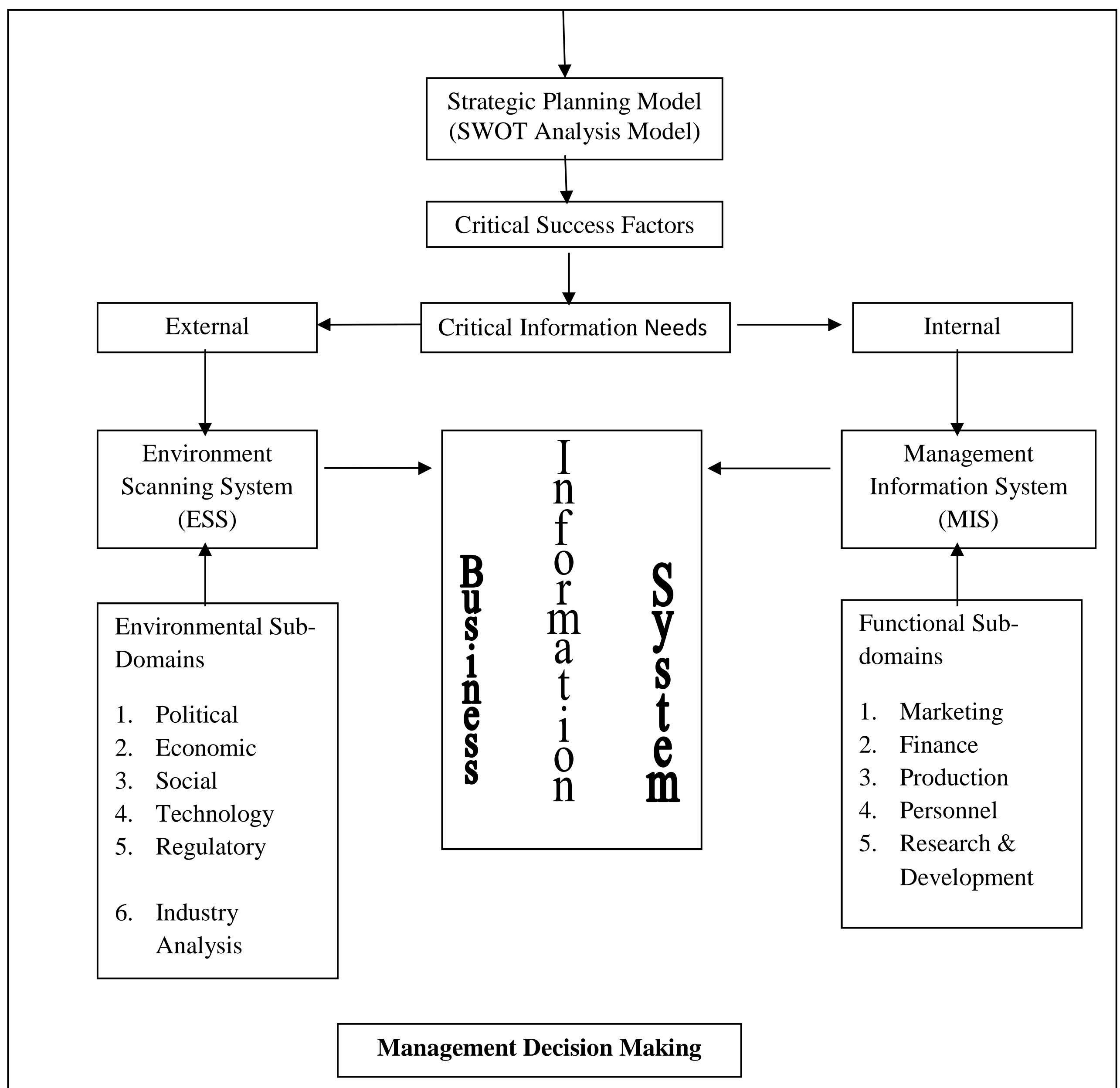
Opportunities: Opportunities are major favourable situations in an organization's external environment that the company may be able to exploit to its advantage i.e. an area of need that a company can perform profitably. Identification of the previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes and improved buyer/ supplier relationships could represent major opportunities.

Threats: Threats are major unfavourable situations/ factors/ trends in an organization's external environment that may present challenges to performance. The entrance of new competitors, slow market growth, increased bargaining power of key buyers/ suppliers, major technological change and changing regulations could represent major threats to an organization's success.

Thus the SWOT Analysis should place an organization in a better position to capitalize on internal strengths, to take advantage of key external opportunities, to avoid, reduce or mitigate external threats and to overcome internal weaknesses.

Critical Information Needs (for achieving strategic goals)

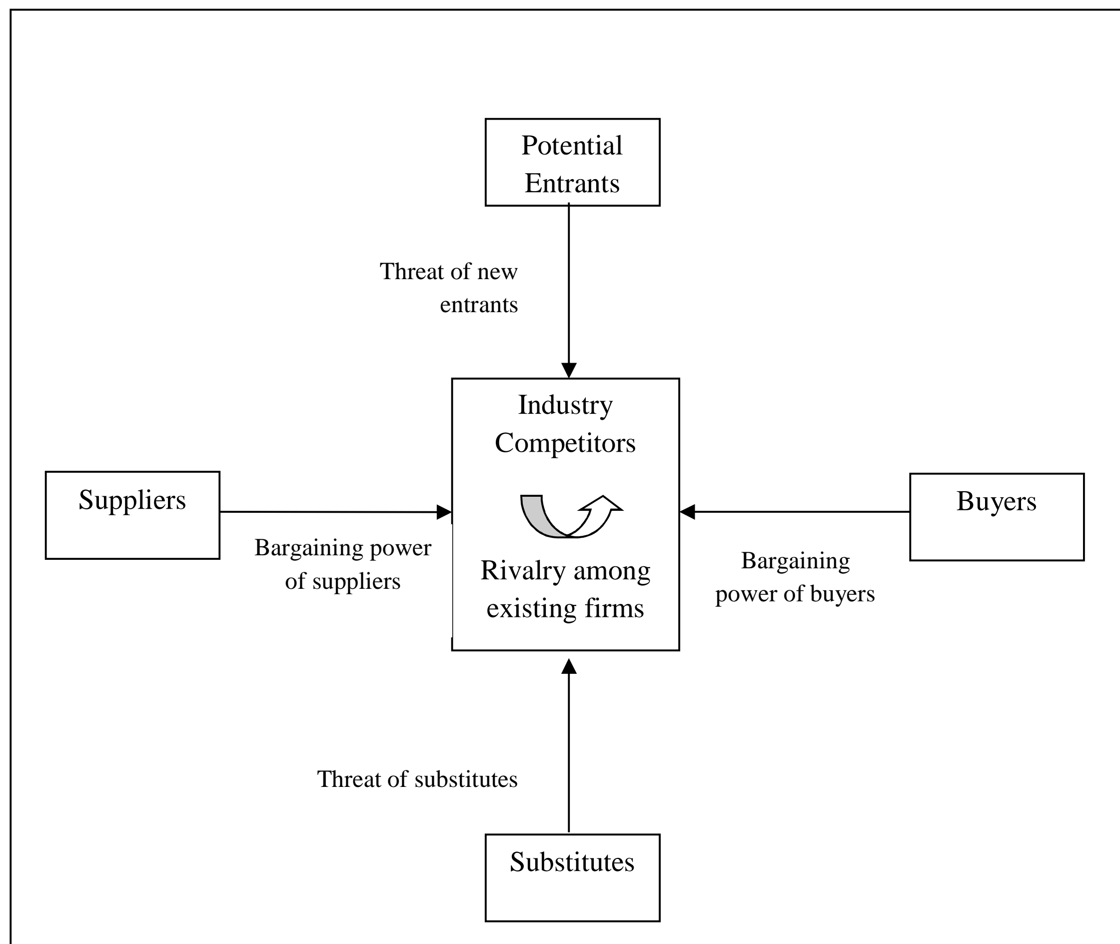
The life blood of any organization is information. Thus it is important that the right information is available at the right time and in the right place. The integration of internally and externally focused information systems i.e. Business Information System developed by an organization serves the above purpose.



II. Porter's five forces competition analysis

The five forces approach that Porter proposes as a means of examining the competitive environment at the level of the strategic business unit (SBU), so as to provide an understanding of what forces influence degrees of competition and opportunities for building competitive advantage.

The five forces are discussed as below:



Porter's Five Forces Model

1. The threat of new entrants

Threat of entry to an industry will depend on the extent to which there are *barriers to entry*, which are as follows:

- Economies of scale: When a company produces more and more quantities of a particular product, the cost/ unit reduces.
- Project Cost/ Entry level cost: The capital cost of entry will vary according to the technology and scale used, e.g. cement industry.
- Access to distribution channels

- Cost advantages independent of size: It is difficult for a competitor to break into a market if there is an established operator which knows that market well, has good relationships with the key buyers and suppliers, and knows how to overcome market and operating problems.
- Retaliation by established producers
- Regulatory Barriers: Legal restraints on competition vary from patent protection, to regulation to control markets (e.g. over the counter medicines and insurance) through direct government action.
- Product differentiation: It means provision of a product or service regarded by the user as different from and of higher value than the competition.

2. The threat of substitutes

- Product – for- product substitution: e.g. fax for postal service, email for fax
- Substitution of need: by a new product or service rendering an existing product or service superfluous
- Generic substitution: occurs where products and services compete for need
- Doing without can also be thought of as a substitute
- Buyer propensity to substitute
- Relative price performance ratio of substitutes

3. Bargaining power of suppliers

- Size and concentration of supplier relative to buyer
- Supplier's switching costs
- Supplier's information
- Supplier's ability to forward integrate
- Price sensitivity
  - ✓ Cost of product relative to total cost
  - ✓ Product differentiation
  - ✓ Competition between suppliers

4. Bargaining power of buyers

- Size and concentration of buyer relative to supplier
- Buyer's switching costs
- Buyer's information
- Buyer's ability to backward integrate
- Price sensitivity
  - ✓ Cost of product relative to total cost
  - ✓ Product differentiation
  - ✓ Competition between buyers

5. Intensity of industry rivalry among competing firms

Organizations need to be concerned with extent of direct rivalry between themselves and competitors. What is it based upon? Is it likely to increase or decrease in intensity? How can it be influenced?

In strategic terms, the most competitive conditions will be those in which entry is likely, substitutes threaten and buyers or suppliers exercise control.

However, there are likely to be other forces which affect competitive rivalry:

- The extent to which competitors are in *balance:* where competitors are of roughly equal size, there is the danger of intense competition as on competitor attempts to gain dominance over another.
- Market *growth rates* may affect rivalry. In situations of market growth, an organization might expect to achieve its own growth through the growth in the market; whereas when the market is mature, this has to be achieved by taking market share from the competitors.
- The existence or development of *global customers* may increase competition among suppliers as they try to win their business on a global scale.
- *High fixed costs* in an industry, perhaps through high capital intensity or high costs of storage are likely to result in competitors cutting prices to obtain the turnover required. This can result in price- wars and very low margin operations.
- If the addition of *extra capacity is in large increments,* the competitor making such an addition is likely to create at least short- term overcapacity and increased competition.
- *Differentiation* is important since in a commodity market, where products and services are not differentiated, there is little to stop customers switching between competitors.
- If the *acquisition of weaker companies* by stronger companies results in the provision of funds to improve the competitive standing of such firms, their ability to compete more effectively may be enhanced.
- Where there are *high exit barriers* to an industry, there is again likely to be a persistence of excess capacity and consequently increased competition. Exit barriers might be high for a variety of reasons: they may vary from a high investment in non- transferable fixed assets such as a specialist plant, to the cost of redundancy, to the reliance on one product in order to be credible within a market sector even if the product itself makes losses.

Organizational Scanning/ Internal Analysis

Organizational Scanning is also known as organizational audit and the objective is to identify the organizational capability factors. Organizational capability is the capacity or potential of an organization and hence it is a measurable attribute. Other concepts synonymous to organizational capability factors are: strategic factors, strategic advantage factors, strategic advantages, corporate competence factors, etc. we follow an approach of dividing the organization into functional areas and accordingly capability factors are identified.

A. **Financial Capability Factors:**

Financial capability factors are related to the availability/Source, usage/application and management of funds. Therefore, the typical strengths that support financial capability are:

a. Access to financial resources
b. An amicable relationship with financial institutions
c. High level of credit worthiness
d. Efficient capital budgeting system
e. Low cost of capital as compared to competitors
f. High level of shareholder's confidence
g. Effective management control system
h. Tax benefits due to various government policies
i. Effective financial management information system

B. Marketing Capability Factors:

Marketing Capability factors are related to the product, price, place, promotion, physical evidence, process and people. Thus the factors are:

a. Wide variety and better quality services
b. Low prices as compared to those of similar products in the market
c. Effective sales promotion
d. High profile advertising
e. High quality customer service
f. Effective distribution system i.e. amicable relationship with travel agents, corporate, etc.
g. Favourable company and product image
h. Effective marketing management information system

C. Production (Operational) capability factors :

a. Favourable location
b. High occupancy rate, high seat turnover
c. High level of vertical integration
d. Reliable sources of supply
e. Effective control of operational cost
f. Existence of good inventory control system
g. Availability of high caliber R & D personnel
h. Technological collaboration, level of technology used, etc

D. **Personnel Capability factors :**

The factors which support the personnel capability are:

a. Genuine concern for human resource management and development
b. Efficient and effective personnel systems
c. The organization perceived as a fair and model employer
d. Excellent training opportunities and facilities
e. Congenial working environment
f. Highly satisfied and motivated workforce
g. High level of organizational loyalty
h. Low level of absenteeism
i. Safe working conditions

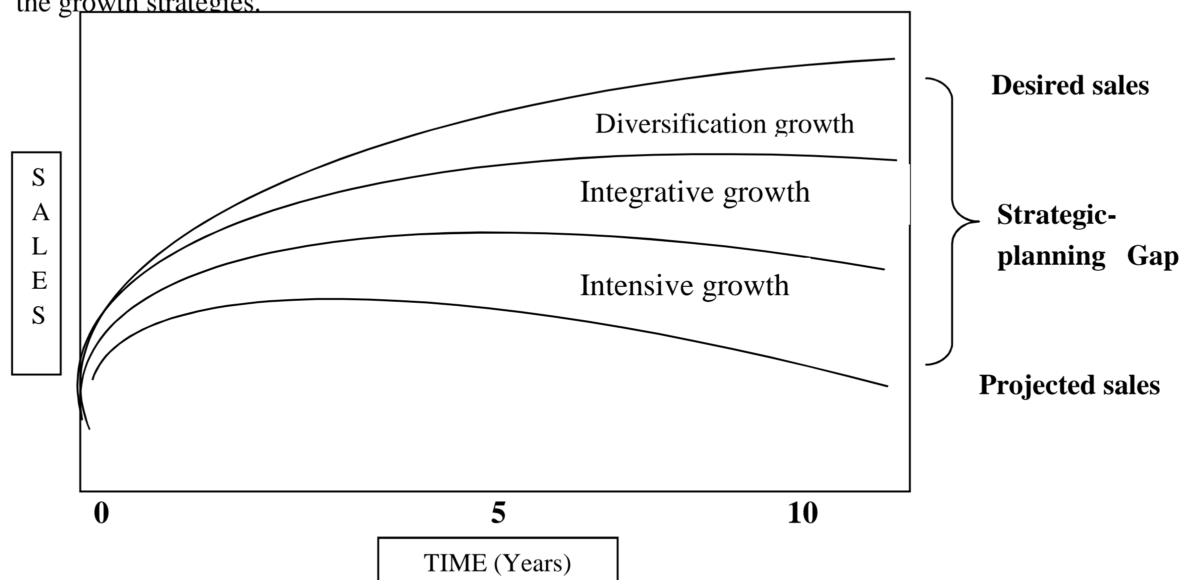
E. **General Management Capability factors:**

The factors that support general management capability are:

a. Effective system for corporate /Long term planning
b. Control, reward and incentive system for top managers geared to the achievement of objectives
c. Entrepreneurial orientation and high propensity for risk taking
d. Good rapport with the government and bureaucracy
e. Favourable corporate image
f. Commonly being perceived as a good organization to work for
g. Development oriented organizational culture
h. Political processes used for consensus building in organizational interest
i. Effective management of organizational change.

Strategy Development and Strategic Planning Gap

In the strategy development process, the corporate management/ strategist will identify the Strategic Planning Gap. “Strategic Planning Gap is the difference between the desired sales & projected sales”. This gap is to be reduced either by using intensive or integrative or diversification or a combination of all the growth strategies.

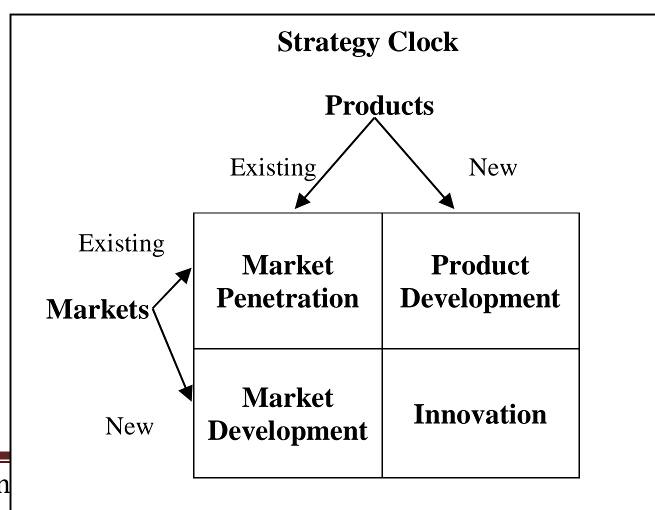


Notes:

- Intensive Growth Strategies are also known as Stability Strategies.
- Expansion Strategies include Integrative & Diversification strategies.
- Therefore, Grand Strategies include Growth & Restructuring Strategies.

I. <u>Intensive Growth Strategies</u>

Intensive growth strategies are presented below with the help of Strategy Clock. The Strategy Clock presents the product and market choices available to an organization. Herein markets may be defined as the customers in a geographical area and products are the goods sold to the customers.



1. **Market Penetration:**

   "Seeking increased market share for present product in the present markets through greater marketing efforts is called Market Penetration Strategy". This can be achieved in three ways:

   a. Increasing present customers rate of usage
      - Increasing the size of the product
      - Increasing the rate of product obsolescence
      - Advertising other uses
      - Giving price incentives for increased use

   b. Attract competitors customers
      - Establishing sharp brand differentiation
      - Increasing sales promotional effort
      - Initiating price cuts

   c. Attracting non-users to buy the product
      - Inducing trial use through sampling, price incentives, etc
      - Pricing up or down
      - Advertising new uses

2. **Market Development:**

"Introducing present products in new markets/ new geographical areas". This can be achieved in three ways:

   a. Regional expansion
   b. National Expansion
   c. International Expansion

3. **Product Development**

"Seeking increased sales by developing new products for present markets". This can be achieved in three ways:

   a. Developing new product features
      - Adapt (to other ideas, developments)
      - Modify (change colour, sound, smell, form, shape)
      - Magnify (stronger, longer, thicker, extra value)
      - Minify (smaller, shorter, lighter)
      - Substitute (other ingredients, process, power)
      - Rearrange (other patterns, layout, sequence, components)
      - Reverse (inside out)
      - Combine (blend, alloy, assortment)

   b. Developing quality variations

   c. Developing additional models and sizes (product proliferation)

4. **Innovation**

Some businesses find it profitable to base their grand strategy on innovation. The underlying philosophy of innovation is creating a new product life cycle, thereby making any existing similar products obsolete. Thus, this approach differs from the product development strategy of extending an existing product life cycle.

The automobile industry provides many excellent examples. Ford Motor Company's introduction of the sporty, economical two- seater EXP was an effort to interest a segment of American drivers who traditionally brought foreign made sports cars in trying a Ford product. This was an innovation strategy because a new life cycle had been started for Ford. At the same time, Ford modified the Fairmont to make it lighter and more fuel efficient. This was a product development strategy since the Fairmont cycle was extended.

II. Integrative Growth Strategies

After examining intensive growth strategies, the next step is to consider integrative growth strategies. Integrative growth typically involves backward, forward, or horizontal integration with an industry. Acquiring or establishing partnerships with suppliers, distributors and competitors are common integrative growth strategies. Integrative growth strategies may be as follows:

1. **Vertical Integration:**

When the grand strategy of an organization involves the acquisition of businesses that either supply the organization with inputs such as raw materials, machinery, etc or serve as a customer for the organization's outputs such as warehouse for finished products, selling outlets, etc, vertical integration is involved. Thus vertical integration is a term used to describe both backward and forward integration.

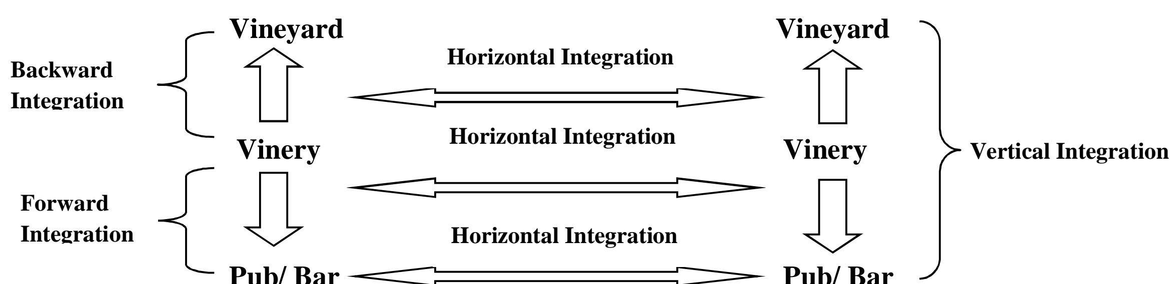
a. Backward Integration: A growth strategy by which organizations acquire/ purchase businesses that supply them with the inputs such as a restaurant purchasing a bakery, a big hotel group purchasing a kitchen equipment company.
b. Forward Integration: A growth strategy by which organizations acquire business that are closer to the ultimate consumer or concerned with the company's outputs such as a hotel acquiring a chain of travel agents.

2. **Horizontal Integration:**

A growth strategy by which companies acquire competitors/ competing businesses e.g. Hotel ABC purchases Hotel XYZ.

Conclusion:

- Acquisitions or mergers of competing businesses are known as "Horizontal integrations"
- Acquisitions or mergers of suppliers or customer businesses are known "Vertical integrations".



III Diversification Growth Strategies

An organization may undertake diversification growth strategy when good opportunities can be found outside the present businesses. A good opportunity is one where the industry is highly attractive and the company has the mix of business strengths to be successful. Diversification Growth Strategies are of three types:

1. **Concentric Diversification**
   Concentric diversification strategy occurs, where there is a strong degree of relatedness (the common thread) between the existing business of an organization and its chosen diversification plan. In other words, adding new, but related products even though the product may appeal to a new class of customers.
2. **Conglomerate Diversification**
   Conglomerate diversification exists at the opposite extreme where there is no relatedness between the existing business and the proposed diversification option. In other words, company seeks new businesses that have no relationship to company's current technology, product or market. E.g. most business houses such as Tata's, Reliance, Birla's, etc are in unrelated businesses.
3. **Joint Venture**
   When two or more independent firms mutually decide to participate in business venture, contributed to total equity capital (because one equity share- one voting right is the principle) and establish a new organization, it is known as a joint venture.

IV Restructuring Strategies

The most common restructuring strategies are as follows:

1. **Retrenchment:** this is characterized by a reduction in the scale and scope of the operations of the organization. Both physical assets and human resources are withdrawn in order to streamline operations and make them more cost efficient. It is accomplished either by cost reduction or asset reduction or both.

2. **Divestment/ Divestiture:** It is the selling off of assets which are either not contributing to the financial health of the company or are not consistent with its other areas of business. Divestment/ divestiture strategies can take any one of three forms:

   - **Sell - off:** A sell-off usually occurs where an organization identifies that some of its assets, skills and resources are not contributing to its business and these are sold to an appropriate buyer.
   - **Spin-off:** A spin- off occurs where an organization deliberately develops an aspect of its operations into a separate business for the purpose of selling this business for a profit, once it has become established.
   - **Split-off:** A split-off occurs where an organization recognizes that a part of its operations (usually a substantial part) is significantly different from the rest of its operations and needs to operate independently if it is to be successful.

3. **Liquidation:** Where an organization has debts which are out of control. This organization is normally placed into liquidation. Its assets are sold under the supervision of the courts and debtors are paid in proportion of what they are owed. Ultimately the organization ceases to exist.

Strategy

"Strategy is the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stockholder expectations".

Characteristics/ Features

The characteristics usually associated with the words "strategy and strategic decision" are as follows:

1. Strategic decisions are likely to be concerned with or affect the long-term direction of an organization.

2. Strategic decisions are normally about trying to achieve some advantage for the organization such as effective positioning to give an advantage in the market.

3. Strategic decisions are likely to be concerned with the scope of an organization's activities. There are four grand/ generic/ basic strategic alternatives: stability, expansion, retrenchment and any combination of these three.

    a. Stability strategy is adopted by an organization when it attempts at incremental improvement of functional performance in terms of customer groups, customer functions and alternative technologies either singly or collectively. They serve the same markets with the present products using the existing technology.
    b. Expansion strategy is followed when an organization substantially broadens the scope of its customer groups, customer functions and alternative technologies jointly or singly in order to improve the performance.
    c. Restructuring strategy is followed when an organization substantially reduces the scope of customer groups, customer functions and alternative technologies jointly or singly in order to improve performance.
    d. Combination grand strategy is followed when an organization adopts a mixture of stability, expansion and restructuring, either at the same time in its different businesses or at different times in the same business with the aim of improving its performance.

4. Strategy can be seen as the matching of the activities of an organization to the environment in which it operates. This is sometimes known as, "The search for strategy fit".

5. Strategy can also be seen as building on or "stretching" an organization's resources and competencies to create new opportunities or capitalize them.

6. Strategies may require major resources (Money/cash) changes for an organization.

7. Strategic decisions are likely to affect operational decisions.

Strategy-Formulation analytical Framework

Strategy-formulation techniques can be integrated into a three-stage decision-making framework, as shown below. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

<table>
<tr><td colspan="30"><u>STAGE-1: THE INPUT STAGE</u></td></tr>
<tr><td colspan="10">Internal Factor Evaluation Matrix (IFEM)</td><td colspan="10">External Factor Evaluation Matrix (EFEM)</td><td colspan="10">Competitive Profile Matrix (CPM)</td></tr>
<tr><td colspan="30"><u>STAGE-2: THE MATCHING STAGE</u></td></tr>
<tr><td colspan="6">Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix</td><td colspan="6">Strategic Position & Action Evaluation (SPACE) Matrix</td><td colspan="6">Boston Consulting Group (BCG) Matrix</td><td colspan="6">Internal-External Matrix (IEM)</td><td colspan="6">Grand Strategy (GS) Matrix</td></tr>
<tr><td colspan="30"><u>STAGE-3: THE DECISION STAGE</u></td></tr>
<tr><td colspan="30">Quantitative Strategic Planning Matrix (QSPM)</td></tr>
</table>

Stage 1 of the analytical formulation framework consists of the EFEM, the IFEM, and the CPM. It is called the "*Input Stage",* as it summarizes the basic input information needed to formulate strategies.

Stage 2, of the analytical formulation framework consists of (TOWS) Matrix, (SPACE) Matrix, (BCG) Matrix, IEM and (GS) Matrix. It is called the "*Matching Stage*", as it focuses upon generating feasible alternative strategies by aligning key external and internal factors.

Stage 3, of the analytical formulation framework consists of a single technique the QSPM. It is called the "*Decision Stage"*, as it uses input information from **Stage 1** to evaluate feasible alternative strategies identified in **Stage 2**. A QSPM reveals the relative attractiveness of alternative strategies and, thus, provides an objective basis for selecting specific strategies.

STAGE-1: THE INPUT STAGE

Internal Factor Evaluation Matrix (IFEM)

This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, like, marketing, finance, production, and research & development.
An IFE Matrix can be developed in five steps:

1. List key internal factors (i.e.) the strengths and weaknesses. Recommended number of factors is between 7-20
2. Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor. The weight assigned to a given factor indicates the relative importance of that factor to the organizations overall performance. The sum of all weights must equal 1.0
3. Assign a 1-to-4 rating to each factor to indicate whether that factor represents a major weakness (rating=1), a minor weakness (rating =2), a minor strength (rating =3), or a major strength (rating = 4). Note that strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating.
4. Multiply each factor's weight by its rating to determine a weighted score for each variable.
5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

A Sample Internal Factor Evaluation Matrix for a hotel

KEY INTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
STRENGHTS			
Strong brand recognition	0.13	4	0.52
Experienced management team	0.10	4	0.40
Corporate culture	0.04	3	0.12
Hotel condition (Cleanliness)	0.08	4	0.32
Room comfort standard	0.08	4	0.32
Food and beverage	0.08	4	0.32
Gaming	0.06	4	0.24
Prime location	0.06	3	0.18
WEAKNESS			
Little access to International market	0.06	1	0.06
Little diversification	0.05	2	0.10
Age of the building	0.04	2	0.08
Ineffective promotions and advertisements	0.08	1	0.08
Unqualified staff	0.07	2	0.14
Poor service	0.07	2	0.14
TOTAL	**1.00**		**3.02**

The highest possible score for the organization is 4.00 and the lowest possible total weighted score is 1.00. The total weighted score of 4.00 in the above example indicates that the organization is above average in its overall internal strength.

External Factor Evaluation Matrix (EFEM)

The EFE Matrix can help strategists evaluate the market and industry, but these tools must be accompanied by good intuitive judgment. This technique is similar to the IFE matrix, except that the focus is on the economic, social, cultural, demographic, political, governmental, legal, technological and competitive opportunities and threats, rather than internal strengths and weaknesses.

An EFE Matrix can be developed in five steps:

1. List key external factors (i.e.) the opportunities and threats. Recommended number of factors is between 7-20
2. Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor. Opportunities often receive higher weights than threats, but threats too can receive high weights if they are especially severe or threatening. The weight assigned to a given factor indicates the relative importance of that factor to the organizations overall performance. The sum of all weights must equal 1.0
3. Assign a 1-to-4 rating to each factor to indicate whether that factor represents a major threat (rating=1), a minor threat (rating =2), a minor opportunity (rating =3), or a major opportunity (rating = 4). Note that opportunities must receive a 4 or 3 rating and threats must receive a 1 or 2 rating.
4. Multiply each factor's weight by its rating to determine a weighted score for each variable.
5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

A Sample Internal Factor Evaluation Matrix for a hotel

KEY EXTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
OPPORTUNITIES			
Refurbishment option for the building	0.09	3	0.27
Corporate sponsorship	0.08	3	0.32
Offer an array of distinctive and specialized services to high end guests and HNI’s	0.09	4	0.36
Rising online reservation business	0.09	3	0.27
Economic status	0.08	4	0.24
Environment	0.06	3	0.18
Growth of hospitality	0.06	3	0.18
THREATS			
New hotels near the venue (Competition)	0.12	4	0.48
Increase of Dollar Vs. Peso	0.07	3	0.21
Workers strikes	0.06	3	0.18
Terrorism	0.06	3	0.18
Increasing of taxes in the country	0.09	3	0.27
National disaster	0.05	3	0.15
TOTAL	**1.00**		**3.32**

The highest possible score for the organization is 4.00 and the lowest possible total weighted score is 1.00. The total weighted score of 4.00 in the above example indicate that the organization competes in an attractive industry and has abundant external opportunities.

Competitive Profile Matrix (CPM)

The Competitive Profile Matrix (CPM) identifies a organizations Key success Factors (KSF's) in relation to a sample firm's strategic position.

A Competitive Profile Matrix can be developed in the following steps:

1. Strategists need to identify the Key success Factors (KSF's) in the industry.
2. A weight is assigned to each key success factor to indicate the relative importance of that factor, to success factors in the industry.
3. Strategists should assign a rating to each competitor to indicate that, firms strength or weakness on each key success factor, where 1= major weakness, 2= minor weakness, 3= minor strength and 4= major strength.
4. The weight assigned to each key success factor must be multiplied by the corresponding rating for each competitor to determine a weighted score.

A Sample Competitive Profile Matrix for a hotel

		Sample Company		**Competitor 1**		**Competitor 2**		**Competitor 3**	
Key Success Factors	**Weight**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**
Advertising	0.14	4	0.56	4	0.56	3	0.42	2	0.28
Product quality	0.13	3	0.39	4	0.52	3	0.39	2	0.26
Price competitive- -ness	0.12	3	0.36	3	0.36	2	0.24	3	0.36
Management	0.11	4	0.44	4	0.44	3	0.33	3	0.33
Financial position	0.15	3	0.45	4	0.60	2	0.30	2	0.30
Customer loyalty	0.10	4	0.40	3	0.30	2	0.20	2	0.20
Global expansion	0.10	2	0.20	4	0.40	3	0.30	2	0.20
Market share	0.15	3	0.45	4	0.60	3	0.45	3	0.45
TOTAL	**1.00**		**3.25**		**3.78**		**2.63**		**2.38**

Based on the research and analysis the result of the comparative profile matrix shows that "Competitor 1" is the most Competitive but having a total weighted score of 3.25 for the "Sample Company" says that, they also have a good position in the Industry.

STAGE-2: THE MATCHING STAGE

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

TWOS Matrix is a strategic planning tool used to evaluate the Threats, Opportunities and Strengths, Weaknesses, involved in a project or in a business venture or in any other situation requiring a decision. This is an important tool in order to formulate strategy. It is composed of 9 cells. As seen in the format, there are 4 Key Factor Cells, 4 Strategy Cells and 1 cell that is always left blank (The upper left cell. The 4 strategy cells are labeled SO, WO, ST and WT, are developed after the 4 key factors cells labeled, S.W.O and T are completed.

THE TOWS MATRIX

	Always leave blank	1 2 3 4 5 6 7 8 9 10	STRENGTHS- S **List strengths**	1 2 3 4 5 6 7 8 9 10	WEAKNESSES- W **List weaknesses**
1 2 3 4 5 6 7 8 9 10	OPPORTUNITIES- O **List opportunities**	1 2 3 4 5 6 7 8 9 10	(SO) STRATEGIES **Use strengths to take advantage of opportunities**	1 2 3 4 5 6 7 8 9 10	(WO) STRATEGIES **Overcome weaknesses by taking advantage of opportunities**
1 2 3 4 5 6 7 8 9 10	THREATS- T **List threats**	1 2 3 4 5 6 7 8 9 10	(ST) STRATEGIES **Use strengths to avoid threats**	1 2 3 4 5 6 7 8 9 10	(WT) STRATEGIES **Minimize weaknesses and avoid threats**

This Matrix is an important matching tool that helps managers develops four types of strategies: SO Strategies (strength-opportunities), WO Strategies (weakness- opportunities), ST Strategies (strength-threats), and WT Strategies (weakness-threats).The most difficult part of TOWS matrix is to match internal and external factor.

There are eight steps involved in constructing a TOWS Matrix:

1. Rank external opportunities
2. Rank external threats
3. Rank internal strength
4. Rank internal weaknesses.
5. Match internal strengths with external opportunities and mention the result in the SO Strategies cell.
6. Match internal weaknesses with external opportunities and mention the result in the WO Strategies cell.
7. Match internal strengths with external threats and mention the result in the ST Strategies cell.
8. Match internal weaknesses with external threats and mention the result in the WT strategies cell.

SO Strategies:

Every firm desires to obtain benefit from its resources such benefit can only be obtained if they utilize its strength to take advantage of external opportunity. **For example:** the firm having a good financial position (which is a strength) and externally, there is an opportunity to expand business. The strong financial position provides an opportunity to expand the business. The matched strategy is known as SO strategy.

WO Strategies:

WO Strategies are developed to match weakness of the firm with the external opportunities. WO strategy is very useful if the firm take advantage of the external opportunities in order to overcome the weakness. **For example**: the firm is facing critical financial problems (Which is a weakness) and firm is availing merger with Multinational Corporation.

ST Strategies:

ST Strategies is an important strategy to overcome external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. **For example**: This strategy is adopted by various colleges by opening new branches at varied locations, in order to overcome competitive threats.

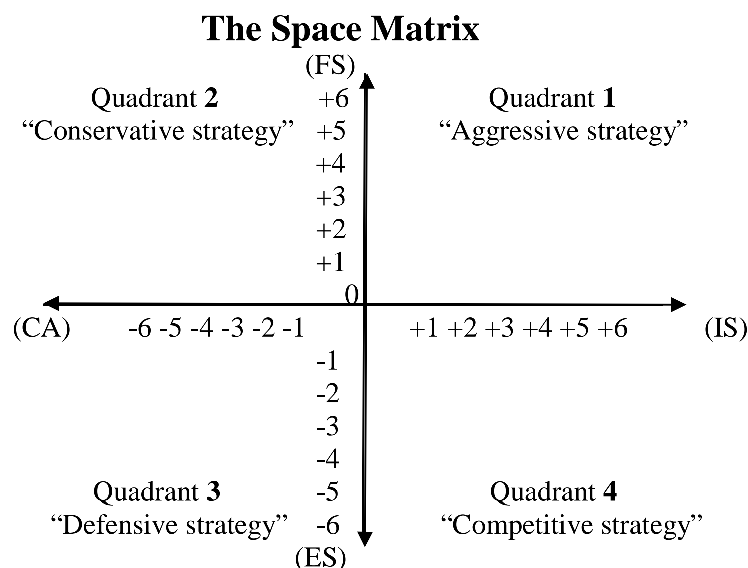
WT Strategies:

Every firm has a desire to overcome its weakness and reducing threats. This type of strategy is helpful when weaknesses are minimized to avoid/ overcome external threats. **For example:** Weak distribution network creating many problems for the firm. If it is strong, many external threats can be removed.

Strategic Position and Action Evaluation Matrix (SPACE Matrix)

The Strategic Position and Action Evaluation (SPACE) Matrix is another important Stage 2 matching tool of formulation framework. It is a four- quadrant framework that suggests whether “Aggressive”, “Conservative”, “Defensive” or “Competitive” type strategies are most appropriate for a given organization. The axes of the SPACE Matrix represent two internal dimensions financial strength [FS] and competitive advantage [CA]) and two external dimensions (environmental stability [ES] and industry strength [IS]). These four factors are the most important determinants of an organization's overall strategic position.

The Space Matrix



This frame work determines appropriate set of strategies for each quadrant.

The First quadrant is- “Aggressive strategy”. All the firms who fall in this quadrant must follow the aggressive strategy.

The Second quadrant is “Conservative strategy”. All the firms who fall in this quadrant must follow conservative strategy.

The Third quadrant is “Defensive strategy”. All the firms who fall in this quadrant must follow the defensive strategy.

The Forth quadrant is “Competitive strategy”. All the firms who fall in this quadrant must follow the competitive strategy.

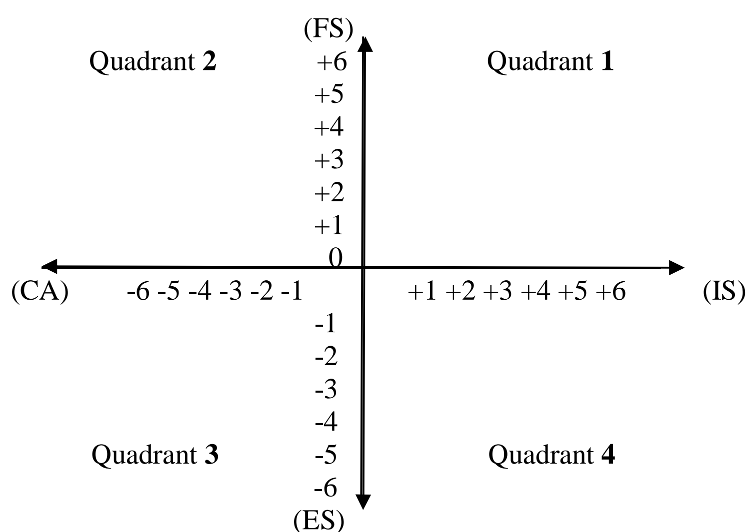
The steps required to develop a SPACE Matrix are as follows:

1. Select a set of variables to relating to financial strength, competitive advantage, environmental stability, and industry strength.
2. Assign a numerical value ranging from +1 (worst) to +6 (best) to each of the variables that make up the financial strength and industry strength dimensions. Assign a numerical value ranging from - 1 (best) to -6 (worst) to each of the variables that make up the environmental stability and competitive advantage dimensions.
3. Compute an average score for FS, CA, IS and ES by summing each dimensions factor ratings and dividing by the number of variables included in the respective dimension.
4. Plot the average scores for FS, CA, IS and ES on the appropriate axis in the SPACE Matrix.
5. Add the two scores on the x-axis (Horizontal) and plot the resultant point on X. Add the two scores on the y-axis (Vertical) and plot the resultant point on Y. Plot the intersection of the new xy point.

6. Draw a directional vector from the origin of the SPACE Matrix through the new intersection point. This vector reveals the type of strategies recommended for the organization: aggressive, competitive, defensive or conservative".

	INTERNAL STRATEGIC POSITION	RATING	EXTERNAL STRATEGIC POSITION	RATING
Y AXIS	**Financial Strength (FS) +6: Best, +1: Worst**		**Environmental Stability (ES) -1: Best, -6: Worst**	
	Return on Investment	(+3)	Technological changes	(-1)
	Liquidity	(+3)	Rate of Inflation	(-3)
	Working capital	(+5)	Price range of competing products	(-3)
	Cash flow	(+3)	Demand variability	(-3)
	Ease of exit from market	(+4)	Barriers to entry into market	(-5)
	Risk involved in business	(-4)	Competitive pressure	(-4)
	Average:	**3.67**	**Average:**	**-3.16**
X AXIS	**Competitive Advantage (CA) -1: Best, -6: Worst**		**Industry Strength (IS) +6: Best, +1: Worst**	
	Market share	(-2)	Growth potential	(+3)
	Product quality	(-2)	Profit potential	(+3)
	Product life cycle	(-3)	Financial stability	(+3)
	customer loyalty	(-3)	Resource availability	(+4)
	Customer preference	(-3)	Ease of entry into the market	(+2)
	Technological know-how	(-1)	Productivity, capacity utilization	(+4)
	Control over suppliers and distributors	(-2)		
	Average:	**-2.28**	**Average:**	**3.16**

The Space Matrix

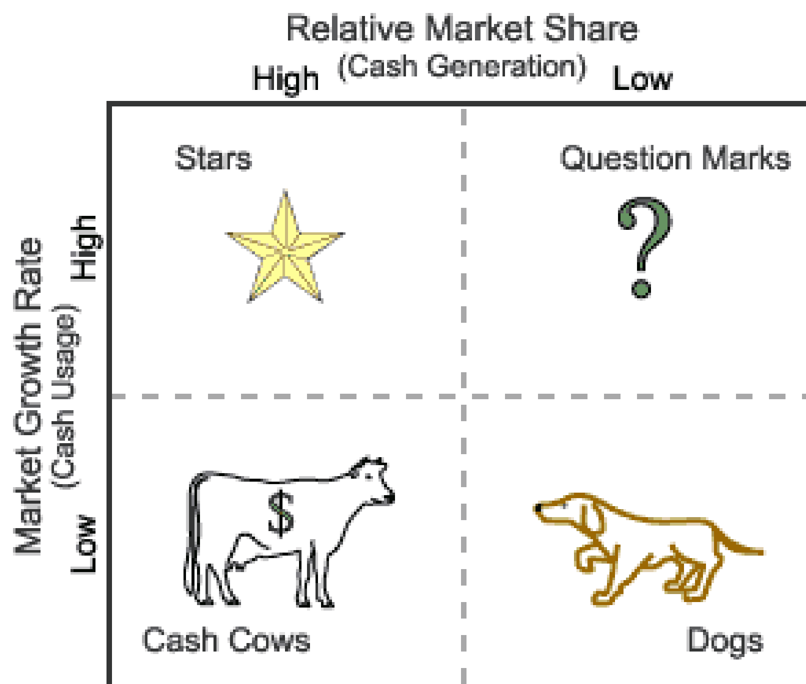


Boston Consulting Group (BCG) Matrix

The BCG matrix graphically portrays differences among divisions in terms of relative market share and industry growth rate. The BCG matrix allows a multidivisional organization to manage its "Portfolio of businesses" by examining the relative market share position and the industry growth rate of each division relative to all other divisions.

Relative market share position can be defined as the ratio of a division's own market share of the industry to the market share held by the largest rival. Relative market share position is given on the X-Axis of the BCG Matrix. Typically, the midpoint on the X-Axis is set at .50, which corresponds to a division that has half the market share of the leading firm in the industry. The Y-Axis represents the industry growth rate in sales, measured in percentage terms, with 0.0 being the midpoint.

Divisions located in the Quadrant I of the BCG matrix are called "Question marks", those located in Quadrant II are called "Stars", those located in Quadrant III are called "Cash cows" and those located in Quadrant III are called "Dogs".
The BCG matrix allows top managers to examine, in one schematic representation, relationships among all its divisions. This comparative analysis, combined with TOWS matrix and SPACE matrix, provides a basis for identifying feasible alternative strategies.



Explanation of each quadrant:

Quadrant I: Question Marks/ Low relative market share & High industry growth rate

Quadrant 1 divisions in the BCG matrix have a low relative market share yet, they compete in high growth rate industries. Generally these firm's cash needs are high and their cash generation is low. Quadrant 1 divisions should be significantly strengthened through increased allocation of company resourced, or alternatively, they should be divested. This is why these businesses are called "Question Marks", because the organization must decide whether to pursue an intensive strategy (Market penetration, market development, or product development) or divest the division.

Quadrant II: Stars/ High relative market share & High industry growth rate

Quadrant II divisions represent the organizations best long-run opportunities for growth and profitability. Divisions with a high relative market share and a high industry growth rate should receive substantial investment to maintain or strengthen their dominant position. Quadrant II businesses are often called "Stars". Forward integration, backward integration, horizontal integration, market penetration, market development and product development are all appropriate strategies for these divisions to consider. i.e. (Intensive and integrative strategies)

Quadrant III: Cash cows/ High Market share & Low industry growth rate

Quadrant I divisions in the BCG matrix have a high relative market share and compete in a low growth industry. They are called Cash cows. Many of today's Cash cows were yesterday's stars. Due to their dominant position and minimal need for additional resources, these businesses generate cash in excess of their needs. Therefore, they are often "Milked". Cash cow divisions should be managed to maintain their strong position for as long as possible. Product development or concentric diversification may be attractive strategies for strong Cash cows. However, as a Cash cow division becomes weak, retrenchment and divestiture can become more appropriate. Today's Cash cows become tomorrow's Dogs.

Quadrant IV: Dogs/ Low Market share & Mature slow growing industry

Quadrant IV divisions of the organization have a low relative market share and compete in a slow or no-market growth industry. They are the Dogs in the firm's portfolio. Because of their weak internal and external position, these businesses often are liquidated, divested, or trimmed down (Retrenched). When a division first becomes a Dog, retrenchment can be the best strategy to pursue, because many Dogs have historically bounced back, after strenuous asset and cost reduction, to be viable and profitable divisions.

Overall, the major benefit of the BCG matrix is that it draws attention to the cash flow, investment characteristics and needs of an organization's various divisions.

Historically, the divisions of many organizations may evolve over time as follows:
Question Marks become Stars, Stars become Cash Cows and Cash Cows become Dogs, in an Anti-clockwise motion. In some organizations, no Anti-clockwise motion is apparent. Over time, organizations should strive to achieve a portfolio of divisions that are Stars.

The Internal-External (IE) Matrix

This is also an important matrix of matching stage of strategy formulation.
The IE Matrix is based on two key dimensions:

1. The IFE total weighted scores on the X-axis
2. The EFE total weighted scores on the Y-axis

(The total weighted scores derived from the IFE and the EFE matrix from the division, allows the construction of a corporate level IE Matrix.)

On the X-axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position; a score of 2.0 to 2.99 is considered average; and a score of 3.0 to 4.0 is strong. On the Y-axis, an EFE total weighted score of 1.0 to 1.99 is considered low; a score of 2.0 to 2.99 is medium; and a score of 3.0 to 4.0 is high.

The IE Matrix is divided into three major regions that have different strategy implications.

- First, the prescription for the divisions that fall into Cells I, II, or IV can be "Grow and build". I.e. Intensive (Market penetration, Market development and Product development) or Integrative (Vertical and Horizontal integration) strategies can be most appropriate for these divisions.
- Second, divisions that fall into Cells III, V, or VII can be best managed with "Hold and maintain" strategies. Market penetration and Product development are two commonly employed strategies for these types of divisions.
- Third, divisions that fall into Cells VI, VIII, or IX can be best managed with "Harvest and Divest" strategies.

The Internal- External (IE) Matrix

THE EFE TOTAL WEIGHTED SCORE	THE IFE TOTAL WEIGHTED SCORE			
		Strong 3.0 to 4.0	Average 2.0 to 2.99	Weak 1.0 to 1.99
	High 3.0 to 4.0	I	II	III
	Medium 2.0 to 2.99	IV	V	VI
	Low 1.0 to 1.99	VII	VIII	IX

The Grand Strategy Matrix

This is also an important matrix of strategy formulation frame work. Grand strategy matrix it is popular tool for formulating alternative strategies. In this matrix all organization can be positioned in one of the Grand Strategy Matrix's four strategy quadrants. A firm's divisions likewise could be positioned. The Grand strategy matrix is based on two evaluative dimensions: Competitive position and Market growth.

Appropriate strategies for an organization to consider are listed in order of attractiveness in each quadrant of the matrix:

Quadrant I:

Firms located in Quadrant I of the Grand Strategy Matrix are in an excellent strategic position. For these firms, continued concentration on current markets (“Market penetration” and “Market development”) and products (“Product development”) are appropriate strategies. When a Quadrant I organization has excessive resources, then “Vertical integration” or “Horizontal integration” may be effective strategies. When a Quadrant I organization is too heavily committed to a single product, then “Concentric diversification” may reduce the risks associated with a narrow product line. Quadrant I firms can afford to take advantage of external opportunities in many areas; they can aggressively take risks when necessary.

Quadrant II:

Firms positioned in Quadrant II need to evaluate seriously their present approach to the marketplace seriously. Although their industry is growing, they are unable to compete effectively. Because Quadrant II firms are in a Rapid Market growth industry, “Market penetration”, “Market development” and “Product development” may be effective strategies. If the firm is lacking a distinctive competence or competitive advantage, then “Horizontal integration” may be a desirable alternative. As a result, “divestiture” or “liquidation” should be considered. “Divestiture” can provide funds needed to acquire other businesses or buy back shares of stock.

Quadrant III:

These organizations compete in a slow-growth industry and have a weak competitive position. These firms must take some drastic changes quickly to avoid further demise and possible extinction. Extensive cost and asset reduction (“Retrenchment”) should be pursued first. An alternative strategy is to shift resources away from the current business into different areas. If all else fails, the final options for Quadrant III businesses are “Divestiture” or “Liquidation”.

Quadrant IV:

Quadrant IV businesses have a strong competitive position but are in a slow-growth industry. These firms have the strength to launch diversified programs into more promising growth areas. Quadrant IV firms gave characteristically high cash flow levels and limited internal growth needs and often can successfully pursue “Concentric”, “Horizontal” or “Conglomerate diversification”. Another viable option for these firms is to form a “Joint venture”.

STAGE-3: THE DECISION STAGE

The Quantitative Strategic Planning Matrix (QSPM)

QSPM determines the relative attractiveness of various strategies based on the key internal and external factors. The relative attractiveness of each strategy within a set of alternatives is computed by determining the cumulative impact of each key internal and external factor. Any number of sets of alternative strategies can comprise a given set. For example: One set of strategies may include "Concentric", "horizontal" and "Conglomerate diversification", whereas another set may include "Issuing stock" Versus "Divesting" of a division to raise needed capital.

The steps involved are:

Step 1: List the firm's key internal strengths/weaknesses and external opportunities/threats in the left column of the QSPM. This information should be taken directly from the IFE Matrix and the EFE Matrix. A minimum of five key internal and external factors each should be included in the QSPM.

Step 2: Assign weights to each Internal and External factor. These weights are identical to those in the IFE Matrix and the EFE Matrix. The ratings are presented in a straight column just to the right of the key internal and external factor column

Step 3: Examine the Stage 2 (Matching Stage) matrices and identify alternative strategies that the organization should consider implementing. Record these strategies in the top row of the QSPM. Group these strategies into sets if appropriate.

Step 4: Determine the Attractiveness Scores (AS). They are defined as numerical values that indicate the relative attractiveness of each strategy in a given set of alternatives. Attractiveness Scores are determined by examining each Internal and External Key factor, one at a time and asking the question; "Does the key factor have an effect on the choice of the strategies being evaluated?"
If the answer to the above question is YES, then the strategy should be evaluated relative to that Key factor. If the answer to the above question is NO, then it indicates that the respective Key factor has no effect upon the specific choice being made. Hence, no Attractiveness Scores are assigned to the strategies in that set. Specifically, Attractiveness Scores should be assigned to each strategy in the given set of alternatives, to indicate the relative attractiveness of one strategy over the others.
The range of Attractiveness Score is: 1= Not attractive, 2= Somewhat attractive, 3= Reasonably attractive and 4= Highly attractive

Step 5: Compute the Total Attractiveness Scores. Total Attractiveness Scores are defined as the product of multiplying the weights (From Step 2) by the Attractiveness Scores (From Step 4) in each row. The Total Attractiveness Scores indicate the relative attractiveness of each alternative strategy, considering only the impact of the adjacent Internal or External Key factor. The higher the Total Attractiveness score, more attractive is the strategic alternative (Considering only the respective internal and external factor).

Step 6: Compute the Sum Total Attractiveness Score. Add Total Attractiveness Scores in each strategy column of the QSPM. The Sum Total Attractiveness Scores reveal which strategy is most attractive in each set of alternatives. Higher scores indicate more attractive strategies, considering all the relevant internal and external factors that could impact the strategic decisions.

The magnitude of difference between the Sum Total Attractiveness Scores in a given set of strategic alternatives indicates the relative desirability of one strategy over another.

The Quantitative Strategic Planning Matrix (QSPM)

		STRATEGIC ALTERNATIVES					
Internal Key Factors	**RATING**	**Competitive**		**Defensive**		**Aggressive**	
STRENGHTS		**AS**	**TAS**	**AS**	**TAS**	**AS**	**TAS**
Strong brand recognition	0.13	4	0.52				
Experienced management team	0.10	4	0.40				
Corporate culture	0.04	3	0.12				
Hotel condition (Cleanliness)	0.08	4	0.32				
Room comfort standard	0.08	4	0.32				
Food and beverage	0.08	4	0.32				
Gaming	0.06	4	0.24				
Prime location	0.06	3	0.18				
WEAKNESS							
Little access to International market	0.06	1	0.06				
Little diversification	0.05	2	0.10				
Age of the building	0.04	2	0.08				
Ineffective promotions and advertisements	0.08	1	0.08				
Unqualified staff	0.07	2	0.14				
Poor service	0.07	2	0.14				
External Key Factors							
OPPORTUNITIES							
Refurbishment option for the building	0.09	3	0.27				
Corporate sponsorship	0.08	3	0.32				
Offer an array of distinctive and specialized services to high end guests and HNI's	0.09	4	0.36				
Rising online reservation business	0.09	3	0.27				
Economic status	0.08	4	0.24				
Environment	0.06	3	0.18				
Growth of hospitality	0.06	3	0.18				
THREATS							
New hotels near the venue (Competition)	0.12	4	0.48				
Increase of Dollar Vs. Peso	0.07	3	0.21				
Workers strikes	0.06	3	0.18				
Terrorism	0.06	3	0.18				
Increasing of taxes in the country	0.09	3	0.27				
National disaster	0.05	3	0.15				
TOTAL ATTRACTIVENESS SCORE			**6.31**				

Approaches to Developing Strategies

Strategies may be based upon an executive's intuition, trial and error philosophy and innovation. On the other hand they may be based on rigorous pragmatic analysis of the variables involved in a problem. Each approach or a combination of approaches is applicable to a given type of situation depending upon the mix of factors. They are as follows:

1. **Adaptive Search Strategy**

   It is an approach to strategy in which, by initially formulation a set of rules in a large overview, the approach moves towards closer & closer approximation of an appropriate solution, moving by successive steps to the solution, each step builds up the previous step.

   For example, a first step could be a decision by a Chief Executive Officer to utilize a programme planning and budgeting system in the Company. A second step might be the decision whether to implement the system on a trial basis in one particular division or throughout the company at the same time. A third step might be the approach taken to implement the system in the particular division. A fourth step might be the determination of the type of programme planning and budgeting system to the company.

2. **Intuition Approach**

   In this type of approach, executives use little or no inference. They move by instinct. They move on the basis of prior experience in a similar setting. Of course, the more facts available, the better the intuitive decision will be.

3. **Determining Strategic Factors**

   Another approach to strategy is to determine the strategic factors that will make an organization successful. In this type of strategy, the executive should look for the critical elements in the organization, in the divisions of the organization, and in the subunits of the organization, i.e. for the strengths and weaknesses that would determine the success or failure of the organization.

4. **Picking Propitious Niches**

   One of the older strategies for organizations is that of picking propitious niches in which to operate. In other words, by clearly defining consumer or client's needs, an organization is able to make services and products available that uniquely fill those needs.

5. **Asking the Right Questions**

   An approach frequently missed by executives is that of asking the right questions. Organizations should examine their strengths and weaknesses, how they can serve their customers better and what operations can use its strengths in fashioning a strategy.

6. Entrepreneurial Approach

The entrepreneur is defines a creative thinker, an individual who combines in himself the role of innovator and risk- bearer. He is tough and pragmatic in disposition and is motivated by a powerful need for achievement and independence.

In the entrepreneurial approach, the strategy is pushed ahead in the face of environmental odds. The vision and direction are typically provided by young executives and the heads of the family- owned enterprises.
The entrepreneurial approach has the following characteristics:

a. It is dominated by an active search for opportunities. The focus is on opportunities rather than problem solving.

b. The power rests with one man, the chief executive, who is capable of taking bold decisions on the basis of personal power charisma.

c. With bold decisions taken in the face of uncertainty, strategy in the entrepreneurial organization moves forward by unusual leaps and thrives with corresponding gains.

d. The most dominant goals in this approach consists of growth and expansion in terms of assets, market share and turnover.

7. Following the Market Leader

Some organizations follow the market leader in terms of what other organizations are doing. In many instances, an organization will follow the leader because it really has no other option.

POLICY FORMULATION

Changes in a firm's strategic direction do not occur automatically. On a day- to –day basis, policies are needed to make a strategy work.

Definition:

"Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing an organization's strategy".
"Policy refers to specific guidelines, methods, procedures, rules, forms and administrative practices established to support and encourage work towards the stated goals".
Policies are instruments for strategy implementation. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives. Often referred to as **'Standard Operating Procedures'**, policies serve to increase managerial effectiveness by standardizing many routine decisions and controlling the discretion of managers and subordinates in implementing operational strategies.

Logically policies should be derived from functional strategies (and in some instances from corporate or business strategies) with the key purpose of aiding in strategy execution.

Purpose of Policies

Policies communicate specific guides to decisions. They are designed to control and reinforce the implementation of functional strategies and the grand strategies and they fulfill this role in several ways:

1. Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully.
2. Policies provide a basis for management control and allow co-ordination across organizational units.
3. Policies establish indirect control over independent action. Policies set boundaries, constraints and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives.
4. Policies promote uniform handling of smaller activities. This facilitates co-ordination of work tasks and helps reduce friction arising from favouritism, discrimination and disparate handling of common functions.
5. Policies ensure quicker decisions. They reduce the amount of time managers spend on decision making by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.
6. Policies help institutionalize basic aspects of organizational behavior. This minimizes conflicting practices and establishes consistent patterns of action in terms of how organizational members attempt to make the strategy work.
7. Policies reduce uncertainty in repetitive and day-to- day decision making. Policies facilitate solving recurring problems and guide the implementation of strategies.
8. Policies can counteract resistance to or rejection of chosen strategies by the organization members. When major strategic change is undertaken, unambiguous operating policies help clarify what is expected and facilitate acceptance, particularly when operating managers participate in policy development.

9. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters, dealing with ordinary or extraordinary problems is greatly expedited – the former by referring to established policy and the latter by drawing on a portion of the manager's time.
10. Policies afford managers a mechanism for avoiding a hasty and ill- conceived decisions in changing operations. Prevailing policy can always be used as a reason for not yielding to emotion-based, expedient or temporarily valid arguments for altering procedures and practices.
11. Policies also clarify what work is to done by whom, thereby promoting delegation of decision making to appropriate managerial levels where various problems usually arise.

Many organizations have a **policy manual** that serves to guide and direct behavior. Policies can apply to all divisions and departments. Some policies apply to a single department. Whatever their scope and form, policies serve as a mechanism for implementing strategies and obtaining objectives. **Policies should be stated in writing whenever possible**. They represent the means for strategic decisions.

1. Functional Policies in Marketing

Key Decision Areas	Typical Questions that should be Answered by the functional policy
1. Product (for service)	• Which products do we emphasize? • Which product/ service contribute most to profitability? • What consumer needs do the products/ services seek to meet? • What changes should be influencing our Customer orientation? •
2. Price	• Are we primarily competing in price? • Can we offer discounts or other pricing modifications? • Are pricing policies standard throughout the country or is there regional control? • What price segments are we targeting (high, medium, low, etc)? • What is the gross profit margin? • Do we emphasize on cost/ demand/ competition- oriented pricing? •
3. Place	• What level of market coverage is necessary? • Are there priority geographic areas? • What channels of distribution are key? • What are the channel objectives, structure and management? • Should the marketing managers change their degree of reliance on distributors, sales reps and direct selling? • What sales organizations do we want? • Is the sales force organized around territory, market or product?
4. Promotion	• What are the key promotion priorities and approaches? • Which advertising/ communication priorities and approaches are linked to different products, market s and territories? • Which media would be most consistent with the total marketing strategy?
5. Physical Evidence	• In your corporate is the tangibility of service predominant? • Do you create a deep impression in the minds of your customers through the layouts, décor, etc?

	• State how your services are differentiated from that of competitors?
6. Process (Service Delivery System)	• Can you create a model for the delivery system for the services, say from the moment of guest check-in to check-out? • Is your service delivery model logical, efficient and time saving? • Do you have a fully automated service delivery system, and is it cost effective?
7. People	• Do you believe in ‘Moment of Truth’? • If so, how the brand recall/ recognition are created through Moment Of Truth? • Do u train your front line staff, in conformity with the SOPs which will create brand recall/ recognition and ultimately it leads to brand loyalty? • How are your departmental and employee level objectives set? Is it based on service orientation? • Does the merit rating of employees take into account the above factors?

2. <u>Functional Policies in Finance/ Accounting</u>

Financial operating policies with longer time perspectives guide financial managers in long-term capital investment, use of debt- financing, dividend allocation and the firm’s leveraging/ borrowing posture.

Key Decision Areas	Typical Questions that should be Answered by the functional policy
1. Capital Acquisition (Financing)	• What is an acceptable cost of capital? • What is the desired proportion of short and long-term debt, preferred and common equity? • What balance is between internal & external funding? • What risk and ownership restrictions are appropriate? • What levels and forms of leasing should be used?
2. Capital Allocation/ Capital budgeting/ Investment	• What are the priorities for capital allocation projects? • On what basis is final selection of projects to be made? • What level of capital allocation can be made by operating managers without higher approval?
3. Dividend and working Capital management	• What portion of earnings should be paid out as dividends? • How important is dividend stability? • Are things other than cash appropriate as dividends? • What are the cash flow requirements, minimum and maximum cash balances? • How liberal/ conservative should the credit policies be? • What limits, payments terms and collection procedures are necessary? • What payment timing and procedure should be followed?

3. Research & Development

First, R & D strategy should clarify whether basic research or product development research will be emphasized. Directly related to the choice of emphasis between basic research and product development, is the time orientation for these efforts mandated by R & D Policy. Should efforts be focused on the near or long-term?

R & D Decision Areas	Typical Questions that should be Answered by the functional policy
1. Basic Research v/s Commercial Development	• To what extent should innovation and break-through research be emphasized? • In relation to the emphasis on product development, refinement and modification? • What new projects are necessary to support growth?
2. Time Horizon	• Is the emphasis short term or long term? • Which orientation best supports the business strategy, marketing and production strategy?
3. Organizational Fit	• Should R & D be done in-house or contracted out? • Should it be centralized or decentralized? • What should be the relationship between R&D unit(s) and product managers? Marketing managers? Production managers?
4. Basic R&D posture	• Should the firm maintain an offensive posture, seeking to lead innovation and development in the industry? • Should the firm adapt a defensive posture, responding quickly to competitor's developments?

4. Production Operation Management (POM) policies

POM operating policies must be co-ordinated with marketing policy if the firm is to succeed. Careful integration with financial policy components (such as capital budgeting and investment decisions) and the personnel function are also necessary. The importance of such co- ordination by showing the different POM concerns that arises when different marketing/ finance/ personnel policies are required as elements.

Operations management concerns associated with different elements of a policy.

Operation Decision Areas	Associated conditions that may affect or place demands on the operations function
1. Compete as low-cost provider of goods or services	• Broadens market • Requires longer production runs and fewer product changes
2. Stress Customer service	• Requires broader development of service people & service parts and equipment • Requires rapid response to customer needs or changes in customer tastes, rapid and accurate information systems, careful co-ordination • Requires a higher inventory investment

3. Provide rapid and frequent introduction of new products	• Requires versatile equipment and people • Has higher research and development costs • Has high retraining costs and high tooling and changeover in manufacturing • Provides lower volumes for each product and fewer opportunities for improvement due to learning curve
4. Strive for absolute growth	• Requires accepting some projects/ products with lower marginal value, which reduces ROI • Diverts talents to areas of weakness instead of concentrating on strengths
5. Seek vertical integration	• Enables company to control more of the process • May not have economies of scale at some stage of process • May require high capital investment as well as technology and skills beyond those currently available within the organization.
6. Maintain reserve capacity for flexibility	• Provides ability to meet peak demands and quickly implement some contingency plans if forecasts are low • Requires capital investment in idle capacity • Provides capability to grow during the lead time normally required for expansion
7. Consolidating processing (centralize)	• Can result in economies of scale • Can locate near one major customer/ supplier • Vulnerability: one strike, fire or flood can halt the entire operation
8. Disperse processing of Service (decentralize)	• Can be near several market territories • Requires more complex co-ordination network • Perhaps expensive data transmission and duplication of some personnel & equipment at each location • If each location produces one product in the line, then the other products must be transported to be available at all locations • If each location provides total product line, then economies of scale may not be realized
9. Stress the use mechanization, automation, robots	• Requires high capital investment • Reduces flexibility • May affect labour relations • Makes maintenance more crucial
10. Stress stability of employment	• Serves the security needs of employees and may develop employee loyalty • Helps to attract and retain highly skilled employees • May require revisions of make-or-buy decisions • Use of idle time, inventory and subcontractors as demand fluctuates

5. Functional policies in Personnel

Functional Tactic	Typical Questions that Personnel Tactics Should Answer
1. Recruitment, selection & orientation	• What key human resources are needed to support the chosen strategy? • How do we recruit these human resources? • How sophisticated should our selection process be? • How should we introduce new employees to the organization?
2. Career development & training	• What our future human resource needs? • How can we prepare our people to meet these needs? • How can we help our people develop?
3. Compensation	• What levels of pay are appropriate for the tasks we require? • How can we motivate and retain good people? • How should we interpret our payment, incentive, benefit and seniority policy?
4. Evaluation, discipline and control	• How often should we evaluate our people? Formally or informally? • What disciplinary steps should we take to deal with poor performance or inappropriate behavior? • In what ways should we "control" individual and group performance?
5. Labour relations and equal opportunity requirements	• How can we maximize labour management co-operation? • How do our personnel practices affect women/ minorities? • Should we have hiring policies?

STRATEGIC IMPLEMENTATION, REVIEW & EVALUATION

I. Strategy Implementation

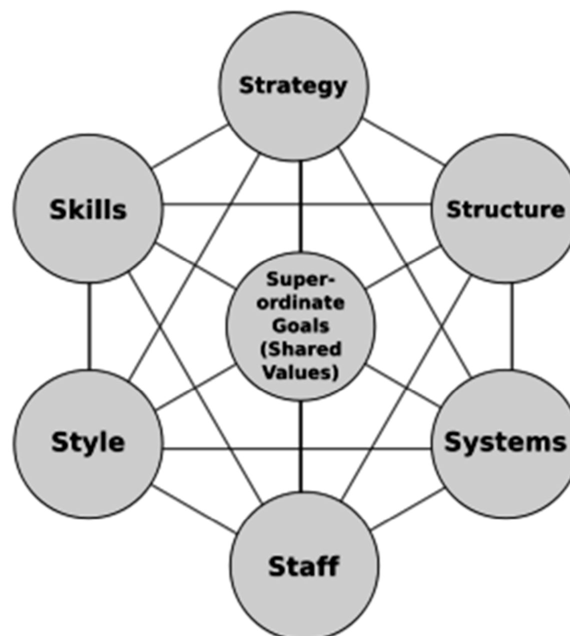
The **McKinsey 7S Framework** is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters at the McKinsey Company, a very well known management consultancy firm in the United States in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7S are structure, strategy, systems, skills, style, staff and shared values. The model is most often used as a tool to assess and monitor changes in the internal situation of an organization.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration. The objective of Mckinsey's 7S Framework is to analyze how well an organization is positioned to achieve its intended objective

The uses of Mckinsey's 7S Framework are as follows:

- Improve the performance of a company
- Examine the likely effects of future changes within a company
- Align departments and processes during a merger or acquisition
- Determine how best to implement a proposed strategy

The McKinsey consultants called structure & strategy as the **hardware/ hard elements** of the organization and suggested that systems, skills, style, staff and shared values are the **software/ soft elements.** The soft elements are often ignored by corporate strategists. While the hard elements are important to the organization, they by themselves cannot assure success, which comes about by corporate commitment. It is the soft elements which play an important role in creating a climate of commitment. The complex relationship between the 7 elements may be diagrammatically represented as below:



This model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.
There is no starting point of implied hierarchy in the shape of the diagram, and it is not obvious which of the seven factors would be the driving force in changing a particular organization at a certain point in time. The critical variables could be different across organizations and in the same organization at different points of time.

Super-ordinate goals (shared values)
In the 7-S framework, there is one variable termed as "super-ordinate goals" which may be considered to be the equivalent of the term "organizational purposes". According to the proponents of the McKinsey framework, super-ordinate goals refer to a "set of values and aspirations that goes beyond the conventional formal statement of corporate objectives". Super-ordinate goals are the fundamental ideas around which a business is built. They are its main values. They are the broad notions of future direction. That is the way the top management as a team wants to express itself. Examples would include the strong drive to "customer service" which guides IBM marketing, GE slogan "progress is our most important product" which encourages engineers to think and innovate throughout the organization, Hewlett Packard's "innovative people at all levels in the organization".

Strategy

Please refer to chapter on Strategy.

Structure
Organizational structure as described in the 7S framework may be compared with the "superstructure" of an organization. The design of the superstructure involves such issues as division of organizational tasks and allocation of responsibilities among various positions, relationship between different departments, etc. The superstructure of an organization indicates how differentiated it is or in other words to what extent the activities of the organization are specialized. It also indicates some of the ways in which some of the organization's tasks are integrated or co-ordinated. The superstructure is commonly depicted by the organizational chart.

Systems
Systems in the 7-S framework refer to all rules, regulations and procedures, both formal and informal that complements the organization structure. In other words, it is the equivalent of the term "infrastructure". It includes production, planning and control systems, cost accounting procedures, capital budgeting systems, recruitment, training and development systems, planning and budgeting systems, performance evaluation systems, etc.

Style
Style is one of the seven levers which top managers can use to bring about organizational change. Style is also known as culture. Culture may be defined as "The pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration and that have worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think and feel in relation to these problems".
Humans can be warm, aggressive, friendly, open, innovative, conservative and so forth. So can be organizations. Organization's culture can be expressed in a variety of ways, written rules and traditions, shared norms about what is important,, prejudices, standards for social etiquette and demeanor, established ways of relating with peers, subordinates and superiors, etc. The culture that an organization wishes to develop is conveyed through rites, rituals, myths, legends and actions.

Staff

In the McKinsey 7 S framework, the term "staff" has a specific connotation. According to them, the term "staff" refers to the way organizations introduce young recruits into the mainstream of their activities and the manner in which they manage their careers as the new entrants develop into future managers. Some examples of "Staff" in various companies like IBM, Texas Instruments, P & G, Hewlett Packard, and Citibank, whose top managers take extraordinary care in moulding the young employees as future managers/ directors.
In other words, there are 3 stages in the career path of an employee. This includes education, training and development. Training and development should be provided by the industry to convert the fresh graduates into future directors or managers.

Skills

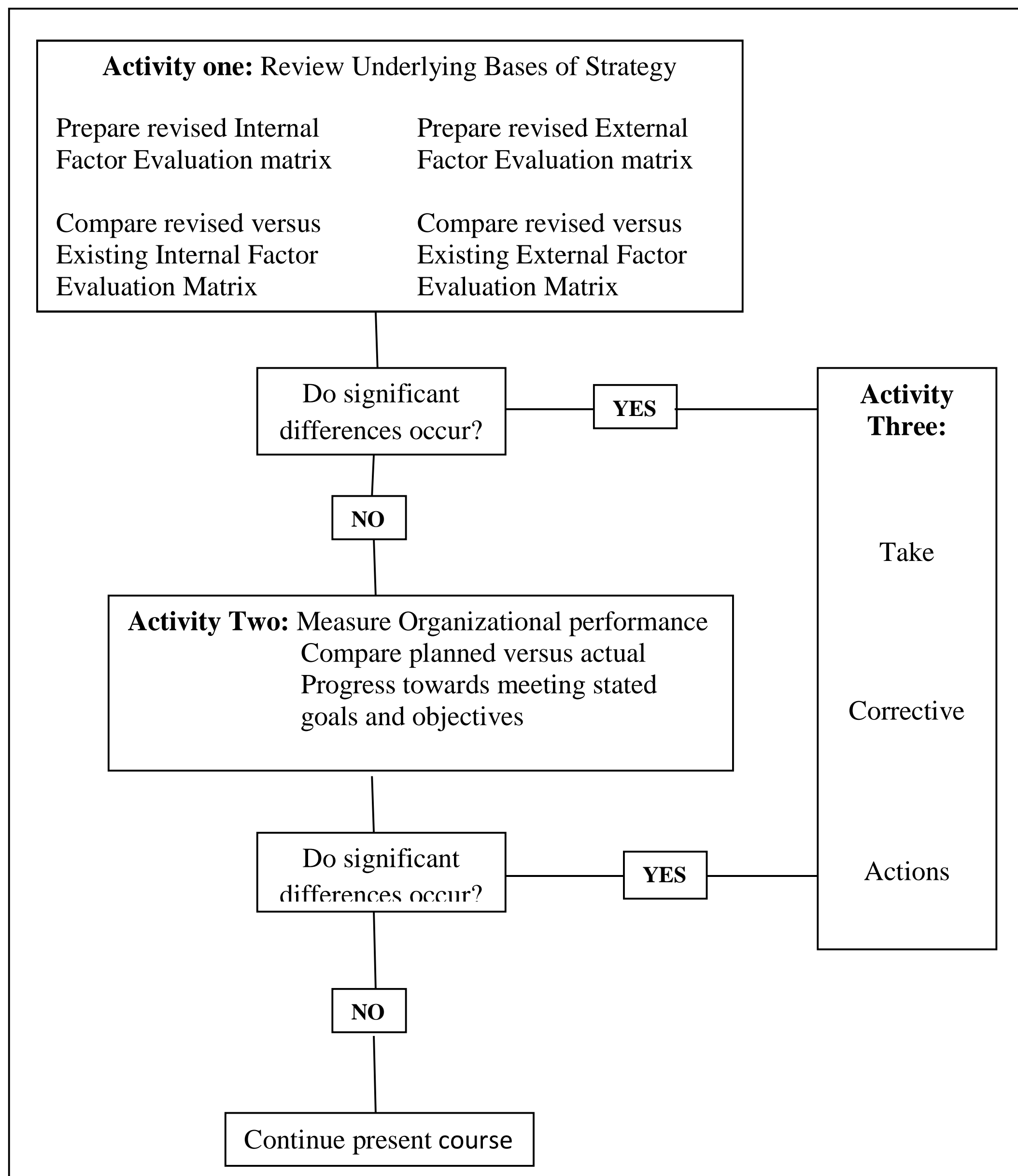
Skills in the McKinsey framework are the equivalent of distinctive competence. The dominant skills or the distinctive competence of an organization are part of the organizational character.
The term "skills" include those characteristics which most people use to describe a company. Hindustan Unilever is known for its marketing skills. Larsen & Toubro and the Tata Engineering & Locomotive Company are known for their engineering skills. IBM is known for its marketing orientation, customer service and market power. Du Pont is known for its research skills and Sony for new product development. Organizations have strengths in a number of areas, but their key strengths or dominant skills are few.

II. Strategy Review and Evaluation

Introduction

Strategy evaluation consists of three activities:
a. Reviewing the underlying internal external factors that represent the bases of current strategies
b. Measuring organization performance and
c. Taking corrective actions

A strategy- evaluation framework



1. Review Underlying Bases of Strategy

It is appropriate for strategy evaluation to begin with a review of the existing bases of an organization's current strategy, because internal & external factors do change.

A revised Internal and External Factor Evaluation Matrix can be developed and compared to an existing Internal and External Factor Evaluation Matrix.

If a revised Internal & External factor Evaluation Matrix reveals major changes in a firm's external opportunities and threats, then current strategies should be reconsidered by proceeding through the strategy formulation process. It is important to note here that strategic reorientation can be appropriate even when an organization's current performance and progress towards stated goals is satisfactory. This is true because significant changes in the internal and external bases of an existing strategy may not be reflected in short- term operating results, yet still can have a detrimental impact on an organization's long-term performance and competitive position. One of the major benefits of strategy evaluation is that it allows an organization to monitor internal and external trends and to anticipate changes.

2. Measure Organizational Performance

Determining which goals and objectives are most important in the evaluation of company strategies can be difficult. Strategy evaluation is based on both a) objective and b) subjective factors. George Steiner suggests that goals and objectives in three areas are most important in evaluating strategy, management quality and development, environmental analysis and diagnosis and financial return. Charles Hofer suggests three other areas as most important in evaluating strategy:

a. Growth as measured in total sales, unit sales, total assets
b. Efficiency as measured in gross margin, net profit and net profit percentage
c. Asset utilization as measured by return on equity (ROE), earnings per share (EPS)

3. Take Corrective Actions

The internal and external environments in which organizations operate today are more complex and dynamic than ever before. They threaten people and organizations with "future shock".

Future shock occurs when the nature, types and speed of changes overpower an individual or organization's ability and capacity to adapt. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances. This is known as **corporate agility**.

Taking corrective actions raises employees' and managers' anxieties. Research suggests that participation in strategy evaluation activities is one of the best ways to overcome individual's resistance to change. Individuals accept changes best when they have a cognitive understanding of the changes, a sense of control over the situation, and an awareness that necessary actions will be taken to implement the changes. Strategy evaluation can lead to strategy formulation changes, strategy implementation changes, or both types of changes. Top managers cannot escape being faced with revising strategy and implementation approaches.

Corrective actions should place an organization in a better position to capitalize on internal strengths, to take advantage of key external opportunities, to avoid/ reduce/ mitigate external threats and to overcome internal weaknesses. Strategic changes should have a proper time horizon and an appropriate amount of risk. They should be internally consistent and socially responsible. Perhaps, most importantly, strategic changes should improve an organization's competitive position in its basic industry.

Entrepreneurial style (Management style) and organizational structure

What do you mean by Entrepreneurship?

The term "Entrepreneurship" probably has a strong positive connotation as a modern management concept. The must be a fit or a balance between the organizational structure of the firm and the type of entrepreneurial behaviour in which it engages.

Entrepreneurship represents organizational behaviour. It includes risk taking, proactivity and innovation on the part of the organization.

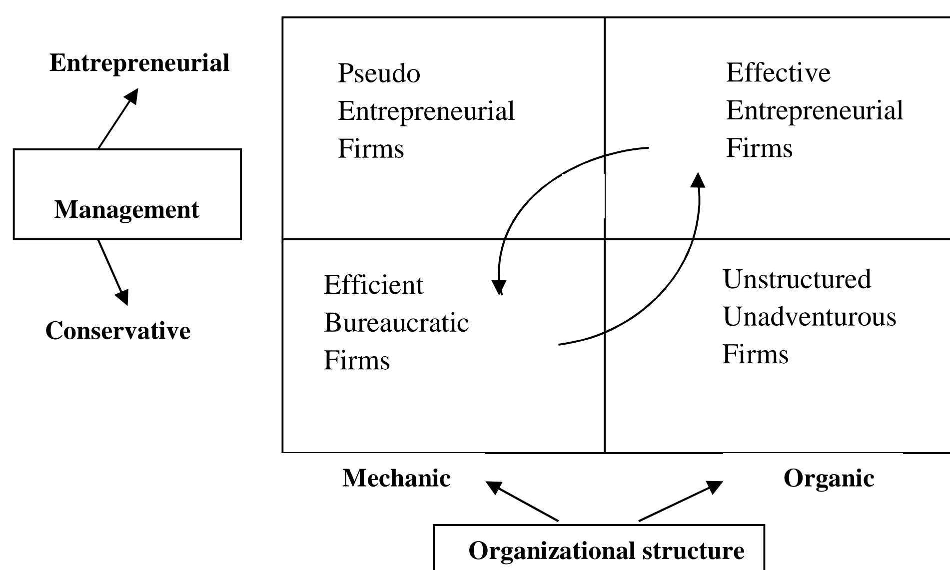
1. **Risk taking**: The preference for high-risk projects with chances of very high returns over low risk projects with lower and more predictable rates of return. The willingness to pursue opportunities boldly and aggressively.
2. **Proactivity**: The willingness to initiate actions to which competitors then respond. The proactive organization attempts to be first in the introduction of new products, services and administrative technologies, rather than merely responding to competitors.
3. **Innovation**: The willingness to place strong emphasis on research and development, new products, new services, improved product lines and general technological improvement in the industry. A successful organization not only engages in entrepreneurial managerial behaviours, but also has the appropriate culture and organizational structure to support such behaviours. An effective manager maintains the proper balance between entrepreneurial behaviour and organic organizational structure.

What do you mean by an Organic Structure?

An "Organic structured organization" is more adaptable, more openly communicating, more consensual and more loosely controlled. Opposite to this, "Mechanistic structured organization" tends to be much more traditional, more tightly controlled and more hierarchical in its approach.

The message for managers is clear if they choose to be entrepreneurial, they have to make sure that they should have a supportive organizational structure and culture to back up your risk taking, proactivity and innovation.

ORGANICITY AND ENTRPRENEURSHIP



As shown in the Figure on the previous page, it is possible to portray the relationship between structure and behaviour graphically. Each one of the four cells in the figure has important implications for the success of the organization.

Cell 1: Effective entrepreneurial firms have the desired combination of entrepreneurial behaviour (risk taking, proactivity and innovation) as well as an organic structure to support and nurture that behaviour. Their structures work because they enhance communication and minimize bureaucratic barriers to innovation. These organic structures also permit rapid responses to market and industry demands that are likely to be greater in environment calling for an entrepreneurial managerial style.

Cell 2: Pseudo-entrepreneurial firms take risks and act in an entrepreneurial fashion, but are stymied by a mechanistic, bureaucratic, rigid organizational structure. Although these firms engage in entrepreneurial activities, their structures do not provide the needed support. Therefore, they do not realize the true benefits of an entrepreneurial managerial style. The emergence of this type of firm may be understood as a seemingly rational response by management to an inherently uncertain environment. Managers may feel that a formal structure with right controls and centralized decision making will help to increase predictability in an uncertain environment.

Cell 3: Efficient bureaucratic firms won't take risks and don't want to. Their mechanistic structure helps them to operate efficiently. These firms achieve high efficiencies by using conservative approaches that emphasize structure and certainty. Their structures provide order and predictability and accomplish routine or repetitive tasks with maximum efficiency. This type of firm is likely to be found in a stable, predictable environment that does not "require" an entrepreneurial managerial style.

Cell 4: Unstructured unadventurous firms are quite organic and adaptable in their organizational structure, but they are also very conservative. While they can respond quickly to their environments, they don't, because of their conservative managerial style. As a result, they do not realize the full benefit of their adaptive, organic structures. In fact, they most likely are not efficient at performing the routine of repetitive tasks that are likely to define the day-to-day activities of the firm. They may be fun places to work because of the open communication, but they don't accomplish much and will probably experience performance pressures.

ORGANIC VERSUS MECHANISTIC ORGANIZATIONAL STRUCTURE

ORGANIC STRUCTURE	MECHANISTIC STRUCTURE
1. **Channel of communication**: Open with free flow of information throughout the organization.	1. **Channel of communication**: Highly structured, restricted information flow.
2. **Operating Styles**: Allowed to vary freely.	2. **Operating Styles**: Must be uniform & restricted.
3. **Authority for Decisions**: Based on expertise of individuals.	3. **Authority for Decisions**: Based on formal line Management position.
4. **Free Adaptation**: By the organization to the changing circumstances.	4. **Reluctant Adaptation**: With insistence on holding fast to tried and true management principles despite changes in business conditions.
5. **Emphasis on getting things done**: Unconstrained by formally laid out procedures & principles.	5. **Emphasis on formally laid down procedures**: Reliance on tried and true management.
6. **Losses, Informal control**: with emphasis on norm of co-operation.	6. **Tight Control**: Through sophisticated control systems
7. **Flexible on job Behaviour**: Permitted to be shaped by the requirements of the situation.	7. **Constrained on job Behaviour**: Required to conform to job descriptions.
8. **Participation** and group consensus used frequently.	8. **Superiors make decisions** with minimum consultation and involvement of subordinates